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MARCH
1953

VOL. XVIII NO. 3

IN THIS ISSUE....

- Government
- Product Line Control
- Management Relations
- Time Study
- Management

SOCIETY FOR ADVANCEMENT OF MANAGEMENT

The Pioneer in Management Philosophy

Remington Rand Methods News

Three ways to untangle snarls in your production scheduling

Take the case of a plant where snarls developed about a year after it had been modernized. Suddenly orders backed up in the shop. Some machines had a big backlog while others were idle. Production control methods were out of mesh somewhere. But where? The production men were stymied when it came to overhauling the record-keeping methods.

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Let us give you the full case history of this plant's experience with *an outside viewpoint* to help simplify control methods. Ask for folder **CH-724.**

Or take the case of the big production snarl caused by a small part – because it is the wrong part. Poor description of parts causes all kinds of plant headaches: assembly delays, duplicate stocks, high paperwork costs.

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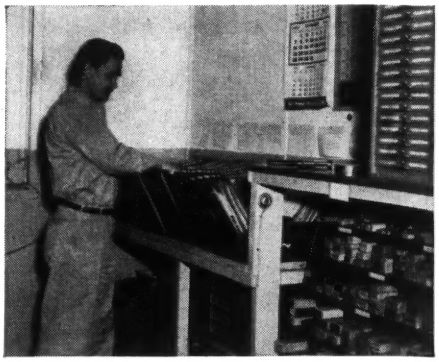

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MARCH 1953
VOLUME XVIII NO. 3

combined with MODERN MANAGEMENT

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CONTENTS

Effective Two-Way Communications 4
by Edward W. Jochim, President, SAM, 1952-1953

Performance Budgeting In Government 5
by Catheryn Seckler-Hudson

Product Planning 10
by Charles H. Kline

What's Ahead—In The Labor Force 14
by Lowell F. Johnson

Foreman Unions! How Soon? 15
Anonymous

SAM Publishes Glossary of Terms 18

Wilson's '51 Speeches Sought For Views 19

Time Study Rating As Measurement 20
by E. S. Buffa

NMC International News 23

Management Policy 24
by John G. Glover

April Chapter Activities 28

The Management Bookshelf 33

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Effective Two-Way Communications

By EDWARD W. JOCHIM
President, SAM, 1952-1953

Edward W. Jochim

REALISTIC analysis indicates that communications are still our Number 1 problem. Further, real progress is improbable, if not impossible, until this problem is solved. Only teamwork can carry us forward, the teamwork of the management and the people of an establishment working together to their mutual objectives. Effective two-way communications are the essential condition to this teamwork.

Yes, we have made real progress in the past without this teamwork. It was a kind of "licking the cream off the top" type of progress. Conditions were such that even unco-ordinated activity could produce results. That condition has long passed. The February issue of FACTORY MANAGEMENT AND MAINTENANCE in the third of its excellent series of "Messages to American Industry" points out that prior to 1929 we made rapid advances in our wealth per person. Our wealth per person was *higher* in 1929 than it is now, some 23 years later. True, there were substantial reasons for this backsliding. The fact remains that continuous progress depends on our ability to meet and overcome obstacles. Teamwork can do this and more. Teamwork can produce a sustained rate of real progress that will dwarf all past accomplishments.

Even a casual survey of conference programs and management literature indicates that much work has been and is being done on this communication challenge. Some of it good. Too little—not yet too late. Clearly the challenge is not presently being met. It would almost seem that again we have become so enamored with our intriguing techniques that we are missing the crux of the challenge. Or could it be that our outstanding authorities on the subject are taking too much for granted, assuming that the fundamentals of the problem are so well known and understood that they can now be ignored? If we are to adhere to our scientific management approach in all other problems, why not in this problem? It is surely equally as dangerous to oversimplify the solution, such as in "just talk to the people."

Authorities in the field of communications, generally agree on the following basic concepts:

1. There must be a healthy atmosphere brought about by consistent policies, practices and procedures that are equitable to all concerned.
2. The desire for communications must be developed through bringing about our understanding of the need for communications.
3. All of the many and valuable techniques are aids—not answers to the problems themselves.
4. The over-all success or failure of communications is dependent on what takes place in the face-to-face relationships between the people and the first line supervision.
5. These relationships are first and foremost a matter of feelings, then of logic and facts. The second stage cannot be attained without passing through the first stage. Our communications break down most notably in this matter of feelings. There are a number of important contributory causes for this.

We are all familiar with the inherent difficulties of transmitting top management decisions or information from the top to the bottom entirely undistorted and uncolored. Perhaps too familiar. We tend to disregard the familiar—that we know and, therefore, largely disregard. Time and effort is spent looking for that one unknown formula which will solve everything—the one formula which does not exist.

People are subjected to more conflicting leadership today than ever before. Even some of our most outstanding citizens are confused—why do we wonder that people in our establishments are confused? The professional and amateur "do gooders" have influence because of their evangelical, if ill founded, zeal. The self-centered have influence because of their completely unhampered unscrupulousness. Nor can we overlook those with blind spots, or those who are just plain stupid.

The challenge to management rests in meeting its responsibility for communications within its over-all job of insuring healthy progress for the business. ★

Performance Budgeting In Government

By CATHERYN SECKLER-HUDSON

A more meaningful basis for management control in government.

The performance budget system provides no magic formula for the cure of all governmental weaknesses. It does offer a more meaningful basis for administrative planning, executive leadership, legislative action, administrative accountability and effective citizen participation.

HIGHLIGHTS ON THE AUTHOR

Dr. Catheryn Seckler-Hudson is Chairman, Department of Political Science and Public Administration, American University, Washington, D. C. She has written extensively in the public administration and general management fields. Professional memberships include: Washington, D. C., SAM Chapter, American Political Science Ass'n, and the American Society of Public Administration.

THE CONCEPT

The performance budget concept, revived in 1949 by the Commission on Organization of the Executive Branch of the Government (popularly known as the "Hoover Commission") *basically means a focus of attention on the ends to be served by the government* rather than on the dollars to be spent. In the formulation of a performance budget the most important single task, then, is the precise definition of the work to be done and a careful estimate of what that work will cost. In the United States where the annual national budget approaches the 100-billion dollar mark, where annual Federal spending amounts to more than 25 percent of the national income, and where more than 50 million individuals contribute to the public purse of the Nation, the concept of *ends to be served* by the government takes on practical meaning for everyone.

THE PRESENTATION

The performance budget document is prepared on the basis of functions and objectives of the several agencies and departments of government rather than exclusively on the basis of objects of expenditure and organizational units. This presentation is especially important for those who give attention to the budget *after* it leaves the unit which originally prepares it. Thus, the format and presentation are vitally important to the legislative bodies that pass judgment on the merits of what is presented, and that authorize funds for the administration of the substance. Also, the form of presentation is important for responsible citizens or groups of citizens who actively participate in the budget process, and who ultimately finance the programs authorized by the legislatures.

In the total sequence of performance budgeting, where an executive budget system is used, there are *two documents. The first document contains the executive proposal of a governmental work program, stated in financial terms, and with proposed costs and revenues shown in relation to each other.* The second document contains the appropriation Acts as passed by the legislative body (in one or more parts) authorizing the use of public funds for the programs as modified by the legislature. *The second document represents legislative decision on executive proposals and it is the official budget of the governmental unit it represents.* The format of the legislative document should follow in pattern and style that of the executive budget proposal, for it becomes the controlling instrument in the administration of the governmental functions and activities as authorized in public law. The presentation of the executive budget proposal is especially significant in that it establishes the basic pattern for appropriation structure.

The Hoover Commission maintained that if the executive preparation of the Federal budget were on a performance basis,—centering the attention on volume of work to be done, accomplishments achieved, and the cost of the services needed, it would concentrate ". . . congressional action and executive direction on the scope and magnitude of the different Federal activities." Furthermore, it would place ". . . both accomplishment and cost in a clear light before the Congress and the public."[1]

THE PRACTICAL MEANING

When the Hoover Commission made its recommendation that the Federal Government adopt a budget based upon functions, activities and projects, there were grave misgivings on the part of many Federal officials. Specifically, what would the practical meaning of "performance budgeting" come to be and with what implications? How would it be defined by the Bureau of the Budget? By the Congress and its committees? Within each individual agency?

Four years after the Commission's recommendations, these questions have not been answered fully. *Because of multiple participation in the Federal budgetary process* it is possible that there will never be complete and final answers to these questions. (See Figure 1, page 6). It is now rather generally

accepted that as a minimum *the performance budget process involves:*

1. *the formulation and adoption of a plan of activities and programs for a stated time period;*

2. *the relating of program costs to resources; and*

3. *the achievement of the authorized plan, according to a time schedule and at a cost within available resources.*

This work plan to be meaningful must lie within the framework of a central public policy. It should include such substance as will provide reasonably accurate answers to the following questions concerning each program in the budget:

WHAT are we proposing to do and WHY?

HOW MUCH do we propose to do and WHEN?

WHAT resources will be needed and at what cost?

WHEN will we be through?

The process of forecasting the answers to these questions is one that never ends. On the contrary it is a continuous, on-going activity of arranging, authorizing and administering the work plan of the Nation.

At the Federal level of government the development of a unified and comprehensive work plan is made especially difficult because of the distinguishing features of the governmental environment. Among these features are:

1. *The gigantic size of the budget.*

2. *The multifarious activities and programs of government* ranging from research on atomic energy to the combating of white lice on roses, and from the waging of war in the Far East to the effective delivery of Christmas cards before December 25th of each year.

3. *The number of persons and institutions participating* in one way or another in the budget process. (See Figure 1).

4. *The range and delicacy of human and group relationships involved,* not only between agencies and branches of the Federal Government, but among the sub-divisions within any given agency.

5. *The political setting of the budget* including the influence of such matters as political elections, campaign promises, changes in executive and administrative leadership, competing social and economic interest groups, international tensions, and national security.

6. *The high degree of accountability of the Congress in the budgetary process.*

7. *The significant role of the budget in conditioning the total national economy.*

These and other complicating conditions have made many individuals seriously question the possibility of developing a comprehensive, meaningful, or coordinated performance budget for the Federal Government.

MULTIPLE PARTICIPATION
in the Federal budgetary process

WHO ARE THE PERSONS OR INSTITUTIONS WITHIN THE FORMAL FRAMEWORK OF THE GOVERNMENT WHO INFLUENCE OR SHAPE THE BUDGET OF THE UNITED STATES?

1. The President of the United States
2. The Council of Economic Advisers
3. The Bureau of the Budget
4. The Department of the Treasury
5. The Individual Agencies and their subdivisions
6. The Federal Reserve Board
7. States and Municipalities having Grants-in-aid programs
8. The Congress of the United States and its Committees
9. The General Accounting Office
10. The Federal Courts

The multitude of interrelationships and frictions growing out of this multiple participation in the budgetary process often conditions action and decision beyond the letter of the law. The most delicate problems of public budgeting arise from the quality of interactions and working relationships of those who participate in the process.

Although official titles and methods of operation may differ, there are comparable participants in the budgetary process at the state and local levels of government.

FIGURE 1.

DECISION-MAKING

Performance budgeting involves decision-making by all those who participate in the budgetary process. These decisions are often so complex in nature that they seem to present no orderly pattern. However, it seems possible to isolate at least six areas wherein decisions are made by one or more of those responsible for public budgeting. These areas may be stated as follows:

1. Somehow and somewhere there is, or should be, an analysis and comparative evaluation of all the needs of the people who live within the jurisdiction to be served by the budget.

Question requiring decision:—*What are the needs of the people and what are their relative merits?*

2. There is at some point or points a selection, from among these needs, of those to be administered by the government and which will therefore be included in the government's plan of activities.

Question requiring decision:—*What choices are made from among the many needs for inclusion in the public budget, and on what basis are these decisions made?*

3. There must be at some point the establishment of fiscal resources to meet the costs of the planned activities.

Question requiring decision:—*What fiscal policy shall be authorized to meet the costs of the work plan?*

4. There must be appropriations, apportionments and allocations of resources and funds among the many authorized activities and programs.

Question requiring decision:—*How much money and other resources shall be allocated to each program and at what rate of expenditure?*

5. Responsibility for the direction and administration of the budget must be located.

Question requiring decision:—*What persons or organizations shall direct and administer the program and how shall this be done?*

6. There shall be an accounting for performance and a justification of the administration of the budget.

Question requiring decision:—*Who shall be held accountable for results and to whom shall the account be made?*

Readily it can be seen that these areas of decision-making reach into every aspect of public budgeting. They embrace both long-range decisions, and manifold short-range decisions. Furthermore, between and during the stages of formulation, adoption, and administration of the budget, revision and change inevitably occur. New needs arise and old ones disappear. Hence, the budget must provide for such flexibility as will permit consideration of all contingencies. At the time when the budget is

presented to the legislative body, it represents executive decisions upon how limited resources shall be distributed among numerous programs. *The budget, as finally enacted into public law, represents executive and legislative compromises as they are translated into legal decisions concerning specific programs.*

OLD IDEA—NEW EMPHASIS

While credit for formally introducing a performance type budget into the Federal Government of the United States should be given to the Hoover Commission, the idea is by no means new. At various times and in different places it has been called "functional," or "activity," or "program" budgeting. Progressive cities in many parts of the United States have used one form or another of this type of budgeting for many years.

Since departmentalization at the city level is generally on a functional basis, and appropriations are usually made for departments, the elementary aspects of performance budgeting have existed in city budgets for half a century or more. Among the cities which have made progress in performance budgeting are Richmond, Va.; the City and County of Denver, Colo.; Oxnard, Calif.; Kissimmee, Fla.; San Diego, Calif.; Kansas City, Mo.; Detroit, Mich.; Rochester, N. Y.; Los Angeles and Berkeley, Calif.; Slater and Lebanon, Mo.; Wichita, Kan.; and Phoenix, Ariz.[2] It should be emphasized that a study of these and other budgets reveals that no one pattern of presentation has been used exclusively. Rather, there are a number of patterns emerging, differing according to the particular unit to which each applies.

More complex in function than the city, but less complex than the Federal Government is the State jurisdiction. However, with the strengthening of the position of the Governors as one State Constitution after another has been rewritten or amended, it is a natural development that the progressive States have tended toward performance budget systems. Oklahoma has done significant work in developing a functional budget. California is outstanding for the progress made in building appropriations in terms of programs, and Maryland voted to adopt a performance State budget system in November, 1952. Other states are converting to program budgeting in some degree.

Many of the individual agencies and departments of the Federal Government have justified their activities on a program basis for years. The Department of Agriculture has a score of clearly identifiable programs which have long been presented as such. The Department of the Interior has clearly developed activity schedules. Many of the so-called Government Corporations have presented well developed program budgets since the passage of the Government Corporations Control Act of 1945.[3]

With the passage of the National Security Act Amendments of 1949[4] the Congress of the United States made mandatory the presentation of performance budgets by the Department of Defense and the three military establishments—the Department of the Army, the Department of the Navy, and the Department of the Air Force. Although

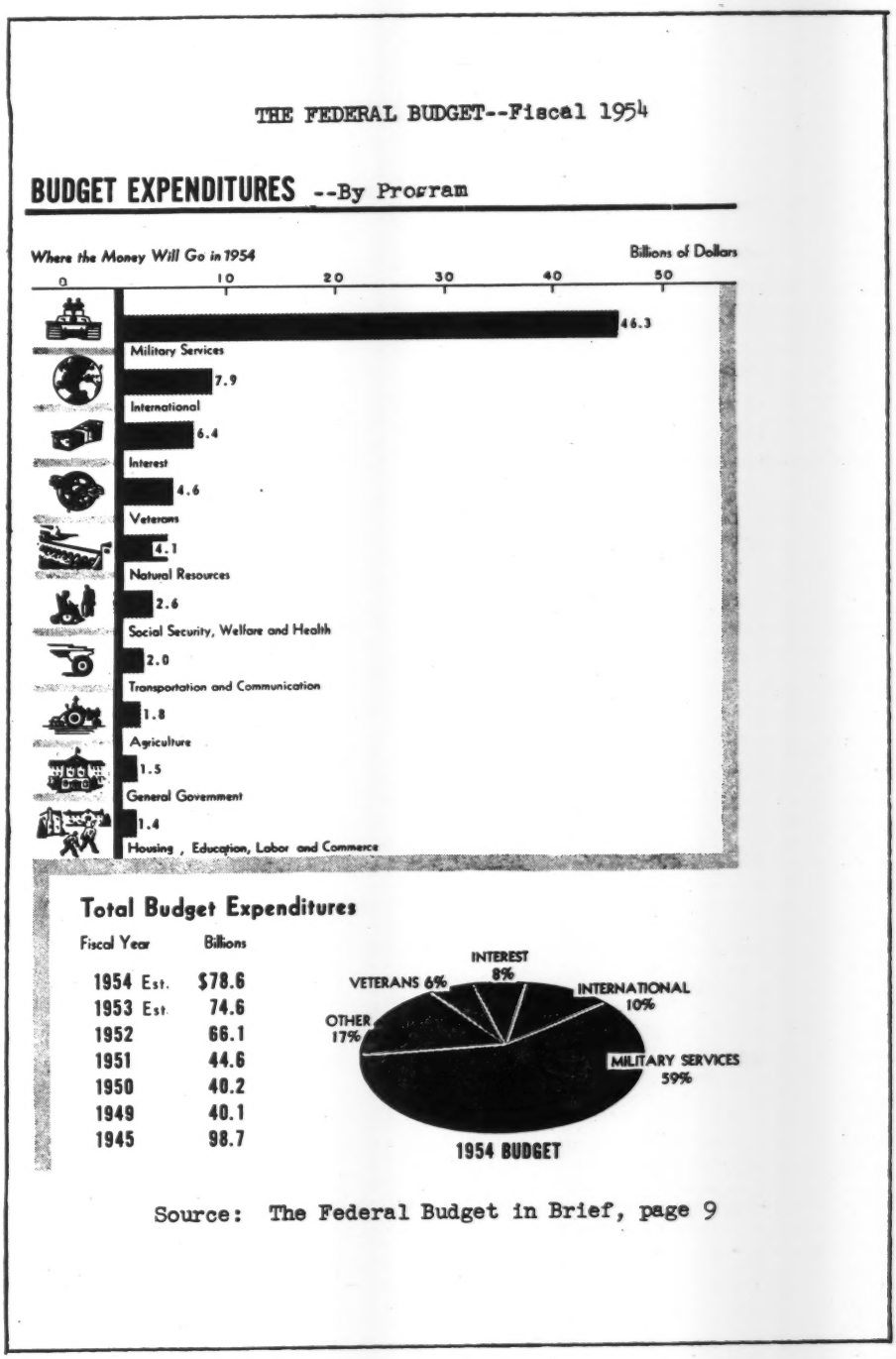


FIGURE 2.

the military establishments had made considerable progress in developing performance budgets before the passage of the 1949 Act, additional strides have been made since. Especially important is the work of each in implementing the concept of Comptrollership in Government.[5]

GOVERNMENT—TODAY

In 1950 the Congress of the United States provided for Government-wide presentation of the budget on a performance basis. The Budget and Accounting Procedures Act of 1950,[6] while not using the words "performance budget," provides that:

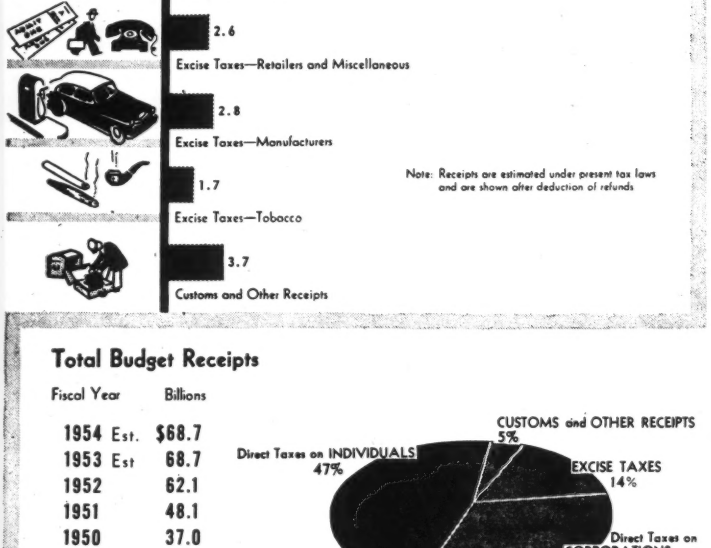
> "The Budget shall set forth in such form and detail as the President may determine—(a) functions and activities of the Government; (b) any other desirable classification of data; (c) a reconciliation of the summary on expenditures with proposed appropriations."[7]

This provision has been interpreted as providing for a performance budget on a government-wide basis particularly in view of the Conference Report on the bill which states that the words "performance budget" had been eliminated from the Senate amendment as being superfluous and possibly, at a later date, restrictive.[8] Even before the final passage of the Act, the Director of the United States Bureau of the Budget had announced that the Budget of the United States Government for the fiscal year 1951 would be presented on a "performance" basis with a breakdown of over 90 percent of the proposed expenditures into activity schedules showing programs and costs.[9] Indeed, as early as January, 1947, the budget document was sent to the Congress containing a functional system of classification of government programs and expenditures.[10] Since then there has been a noticeable attempt to present the Federal budget on a performance basis. Especially there has been an effort to locate costs of a major program within a single appropriation Act.

Supplementing the Budget of the United States for the past four fiscal years is the simplified version known as *The Federal Budget in Brief*. Each year this graphic booklet has clearly presented the budget expenditures in the form of broad government programs, classified according to the purposes and functions they are designed to serve.[11] Almost three-fourths of all Federal expenditures for the fiscal year 1954 (according to the President's January, 1953 estimate) will be for six major national security programs—military services, international security and foreign relations, the development of atomic energy, the promotion of defense production and economic stabilization, civil defense, and merchant marine activities. It is estimated that these six programs will cost the United States over 57 billion dollars. These and other government programs are shown together with their estimated costs in Figure 2. (See page 7). The Government's estimated receipts under present laws are shown in Figure 3. (See above).

THE FEDERAL BUDGET--Fiscal 1954

BUDGET RECEIPTS



Total Budget Receipts

Fiscal Year	Billions
1954 Est.	$68.7
1953 Est	68.7
1952	62.1
1951	48.1
1950	37.0
1949	38.2
1945	44.8

Source: The Federal Budget in Brief, page 7

FIGURE 3.

PRINCIPAL ELEMENTS

Performance budgeting especially at the national level poses a challenge not only for executive leadership but for the Congress of the United States as well. It invites a change in approach to the problems of legislation and administration. It requires vigilant study, a receptiveness to new ideas and techniques, and painstaking thoroughness in

APPRAISING A PERFORMANCE BUDGET SYSTEM

A Yardstick

ALL SHOULD BE IN CONFORMANCE WITH A CENTRAL PUBLIC POLICY

Are there well defined work programs and activities with a careful definition of their costs?

Is there a system of work measurement and the use of performance standards?

Does administrative reporting include reporting on a functional basis?

Are records kept in terms of functional activities accomplished?

Are cost accounting and accrual accounting methods used where applicable?

Is there provision for continuous management analysis and improvement including a system of internal auditing?

Are expenditures divided into appropriate major categories?

Is the appropriation structure in terms of programs and activities to be achieved?

FIGURE 4.

research which heretofore have been reserved too often for the scholar. In the fullest sense, performance budgeting embraces a theory of management which is to be found partially in the best experience of the past combined with on-going study and research in the future. If a more restricted interpretation is given the concept, it is doubtful whether "performance budgeting" will endure at the Federal level of government. A narrower definition could readily result in oversimplification which would not be applicable or adequate in a system of government as complex as that of the United States.

In studying a given governmental unit is it possible to identify the existence and application of the theory required for fully implemented performance budgeting? Are there tangible evidences of such a theory and if so, what are they? (See Figure 4). This writer believes that there *are* certain necessary elements in a system which maintains a fully developed performance budget operation. Time, experience, and further research may add to or subtract from those which seem clear today. However, at the present time features which should be identifiable in such a system would of necessity include, at least, the following:

1. The use of work programs and activities.

2. The installation of work measurement and the application of performance standards.

3. The improvement of administrative reporting to include reporting on a performance basis, and the establishment of a progressive system of record keeping along functional lines.

4. The installation and maintenance of an accrual basis of accounting and improved cost accounting methods where applicable or desirable.

5. The provision for a comprehensive and continuous system of management analysis, evaluation, and improvement, including a system of internal auditing.

6. The presentation, justification, and authorization of public expenditures by appropriate primary categories—usually current operating expenditures and capital expenditures.

7. The revision of appropriation structure in terms of programs and activities to be administered.

8. The consistency of all the above elements with a central public policy.

Each of the above does not stand alone—each is valuable principally to the extent it interacts upon or operates in relation to each of the others and to the whole. It is in the total complex of these interactions that one finds the full meaning of program or performance budgeting. (See Figure 4). It is only for purposes of discussion that these several elements are treated separately in the following paragraphs.

1. Work Programs and Activities. The use of work programs and activities is one of the principles of budget management formulated by the late Harold D. Smith while he was Director of the United States Bureau of the Budget.[12] He referred to it as the principle of "executive budget programming." It requires that individual agency programs should be formulated and considered in terms of the government program as a whole and should be in accordance with the policies established by the President. A sound work program for a specified time period, should include for each activity a clear definition of objectives, the choice of basic methods for achieving the objectives, a forecasting of how much and what kind of work is to be done, at what cost and when.

It is generally agreed that the first

Continued on page 30

Product Planning

By CHARLES H. KLINE

A managerial approach to product line control through planning.

PRODUCT PLANNING, as a specialized function of management, is a relatively new concept in industry. While some planning of products has always been carried on in industry, the function has generally been scattered throughout sales and research management. In order to ensure that product decisions are reached only after careful consideration of all business factors, progressive companies today are beginning to center responsibility for the overall analysis of product problems in specific individuals. In large companies where there are a number of different product lines, each with its own sales manager and separate sales force, the product planner is generally on the central marketing staff and usually reports directly to the chief sales or marketing executive. In smaller companies the line sales manager himself may carry out the product planning program, alone or with a staff assistant.

The basic objective in any product planning program, regardless of size of company or type of organization, is to provide continual analysis and advance planning of the product line. Among the important elements of the program are the following:

1. Establishing profit standards as a guide to product decisions.
2. Establishing and maintaining a sound product policy.
3. Analyzing existing products to determine which should be dropped and which expanded.
4. Simplifying product lines by reducing the number of grades, sizes, models, colors or other varieties.
5. Controlling the volume of small orders by establishing suitable pricing and packaging practices.
6. Establishing methods to improve the development and introduction of new products.
7. Analyzing new areas of product development.

STANDARDS OF PROFITABILITY

In many companies insufficient emphasis is placed on profit standards as a means of guiding product decisions. Most businesses appraise profitability simply on the basis of margins on sales. Gross margins in particular are very deceptive, since comparisons based on them assume a uniform selling and administrative expense for all products—a situation often very far from the facts. Net margins are somewhat better measures, since they do take into account sales and general expenses. Neither gross nor net margins, however, consider turnover, the ratio of sales to invested capital.

The most appropriate measure of profitability is the percentage net return on investment. This is the ratio of net profit to total investment—the value of the land, buildings and equipment (preferably at first cost) and the inventories, receivables and cash required to produce a given product. The return on investment is a measure of the efficiency of use of facilities. Oftentimes it gives a much different picture than the margins on sales. In one company, for example, there were ten products, and most effort and attention were given to Product A because its net margin (before taxes) of 27% was the highest in the company. Actually, there were five other products which, although their net margins ranged only from 23% to 11%, still showed a more satisfactory net return on investment. Net return (before taxes) on total investment for these products ranged from 54% to 25%, while the favored Product A returned only 23%. In this case misdirected effort arising from the use of a faulty profit standard undoubtedly cost the company a considerable loss in total profit.

The principal use of profit standards, of course, is in allocating funds to various projects. Here one company requires that the following minimum standards be met:

	Net return (after taxes) on investment
Labor-saving devices	10%
New products	18%
Process improvements on old products	25%

This company is interested, first, in reducing the direct labor content of it present products; second, in developing new products; and third, in improving its existing manufacturing processes. Different emphasis could, of course, be given to these activities simply by changing the required return.

PRODUCT POLICY

A product policy expresses the long-range strategy of a business. It answers the question, "What general type of product can this company make and sell most efficiently?" In other words, a product policy is a statement of a company's reason for existence in the economy.

A good product policy capitalizes on the special strengths and resources of a company and avoids its weaknesses. For example, if a company is large, has strong financial backing and extensive research facilities, it is admirably suited to the development of highly technical products requiring large research and engineering staffs and heavy expenditures. On the other hand, such a company is generally much too slow in decision-making and too cumbersome in action to engage successfully in the manufacture of fashion goods. Here financial requirements are lower, large size is not desirable and extensive research facilities are unnecessary. The real needs in this latter type of business are anticipation of styles, quick decision-making and fast action, and for these a small

HIGHLIGHTS ON THE AUTHOR

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tightly-knit organization is generally best.

Every company must develop its own product policy on an individual basis. The number of different, but equally successful strategies is fairly large. All policies, however, must consider the following points:

1. Desirable level of investment.
2. Desirable level of sales.
3. Area in which the company is technically most competent.
4. Types of product the company is best equipped to manufacture.
5. Types of product the company is best equipped to distribute.
6. Desirability of patent protection.
7. Preferred types and sources of raw materials.
8. Desirability of mass production or small-volume specialty production.

The product policy should be stated in writing and widely circulated so that it can be used to direct the efforts of all personnel towards the same business objectives. A sound policy, well expressed and well taught to all members of management, makes for a more decisive, more alert and faster-acting organization. It is especially important to explain the policy carefully to the product research and development department. Here the product policy serves as a guide both to the individual researcher in the conception of new research projects and to the research management in the initial screening of proposed projects.

The product policy also provides a set of objective criteria to access the relative desirability of alternate products or research projects. Such assessments are often necessary when a limited amount of manpower or capital must be allocated to several different products, and when there are too many uncertainties or not enough data to make a comparison strictly on the basis of profitability. To simplify comparisons, some companies express their statement of policy in terms of a numerical scoring procedure, so that an approximate measure of the product desirability can be expressed as a single number.

Similarly the product policy is often useful in the analysis of products with an unsatisfactory record of sales and profit. It is frequently difficult at first glance to determine whether such products are basically unsuited to a company's operations or whether they are merely suffering from faulty organization, insufficient effort or poor management. A statement of policy provides a framework for the business analysis of each product and a set of criteria for judging its suitability. This use is discussed in the following section.

EXISTING PRODUCT LINE

In many companies the development of product lines has been very haphazard. New products have been introduced as the opportunity arose or the needs of the moment required. The successful ones have generally received close attention from management, but the less successful have often survived from year to year through sheer inertia. Sometimes too many unrelated products have been introduced, or obsolescent products have been continued too long. In all these cases there is usually a natural reluctance in the sales force to drop any item that contributes to total sales volume.

An important phase of any product planning program is a thorough analysis of all suspect items in the line. Products definitely unsuited to the company's operation should be dropped or sold as going businesses. One company with annual dollar sales in the middle eight figures eliminated in three years 16 different products with total sales of several million dollars—nearly ten per cent of its total volume. Nevertheless, over this three-year period the company's total sales increased by roughly half and its net profits by some 20 times. Of course, these spectacular results were due to a number of factors, principally an improvement in general business conditions in this period. The company management has stated, however, that it believes an important part of the improvement arose from the elimination of the discarded products, several of which had been unprofitable and all of which had diverted the efforts of management and workers alike from the company's main products.

A number of the products eliminated in this case were sold or transferred to other companies better suited to handle them. Investment in inventories and equipment was thus recovered, and, in addition, moderate royalties were received. In one case royalty income over the five years after sale was considerably greater than the estimated net profit that would have been realized if the company had retained the product.

Although this product review made a sizeable reduction in the company's product line, its basic aim was not to eliminate products but to improve overall operations. In several other products analyzed in this same program, the company assigned additional personnel to technical or market development, installed new production equipment or adopted new policies to increase sales. The net result of the whole program was the concentration of more effort on all products with any real promise.

SIMPLIFICATION

In most companies each product is offered in a number of different grades, sizes, colors or other varieties. The number of individual items handled is often very large. One manufacturer of semifinished industrial materials recently found to his horror that it was possible to order from his catalog some 43,000 different standard varieties of his products. A concerted drive to concentrate effort on fewer items led to some startling reductions, as shown in the following figures:

Percentage reduction	Product	Number of grades, sizes and colors Old	New
96	Fabricated specialty	734	28
76	Maintenance and service items	51	12
67	Processed material	3	1
39	Semiprocessed material	75	46

In this company most of the eliminations or consolidations of grades were

readily agreed to by engineering, manufacturing and sales as soon as the facts were developed. This company, however, had been using an outmoded system of manual accounting that made no record of sales by item so that there had been no way of knowing at any one time just how many items were actually being sold. The introduction of automatic accounting machines made possible regular monthly reports of sales by item. These were analyzed periodically by the sales manager, production manager, technical director and accountant for each line, and the sales manager was authorized to make the necessary deletions. The reports of sales by item also served as a basis for compiling for the first time an accurate master list of authorized products and grades. This list was revised every six months and analyzed periodically for trends in the expansion or reduction of the overall line.

CONTROL OF ORDER SIZE

The problem of small orders, often filled at a loss, is always a difficult one. On a typical small order the clerical, accounting and handling charges often run higher than the gross margin realized. Where a company does its entire business in small orders, it can organize all its distribution and clerical procedures specifically to handle such items. The simplified methods required often involve some risk of loss, but since the orders are small, the actual cash loss is slight. A more serious case arises when a company basically organized to handle a relatively small number of large orders also attempts to process a large number of small orders. The careful procedures and safeguards necessary for the large orders are far too costly for the small.

An example of this problem is shown in Figure 1, which analyzes sales by order size for an actual group of products for one month. Total sales of the product group in this month were approximately $500,000, and there were in all about 600 orders. Only 5% of the total number of orders received exceeded $1,000, but these orders accounted for 69% of total sales. Similarly the 31% of all orders over $100 in value accounted for 95% of all sales. On the other end of the scale, 29% of all orders were for amounts of ten dollars or less, but these contributed much less than 1% of total sales. Even the 69% of all orders of $100 or less in value amounted to only 5% of all sales.

The manufacturer here was attempting to be a mass producer, a specialty producer and a retail distributor all under the same roof. Profits, however, came only from the mass production and sale of a few large-volume items. The solution in this particular case was the institution of standard packages, the contents of which had minimum values of 20 to 40 dollars. This one step reduced the volume of incoming orders by nearly half. In other situations minimum order limits and, in custom-made lines, service charges on orders below a certain value are used to control the size and volume of orders.

The policy on small orders will obviously vary from product to product. In new products in particular small orders are necessary to develop the business. Limitations imposed on older products must not be allowed to impair the success of development programs by restricting the sale or gift of sample quantities.

CONTROL OF PRODUCT LINE

The three preceding sections have dealt chiefly with means of improving existing product lines. Although analytical reviews of existing products and programs to reduce the number of grades, sizes and colors in a line are periodically necessary, these steps are essentially repair work to rectify mistakes of the past. The creative aspect of product planning lies in shaping the future. One of the most important steps in preparing a company for the future is to ensure a continuing flow of new products for the future.

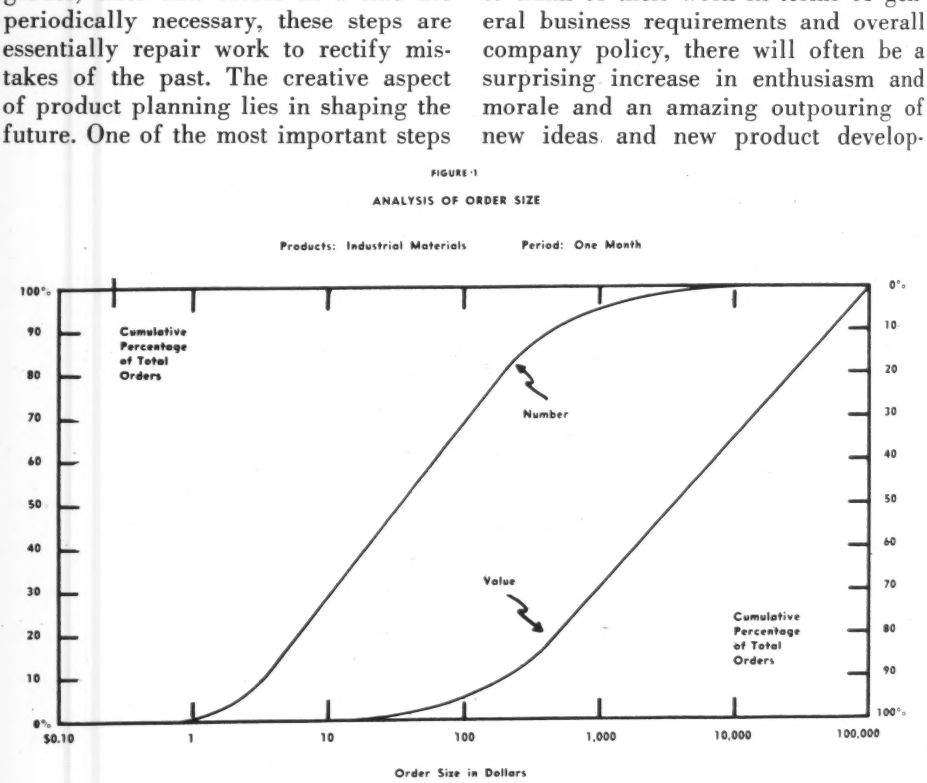
The history of product development in many companies has not been entirely satisfactory. Sometimes laboratory groups have scattered their efforts by attempting to carry on too many unrelated developments at once. In small companies where technical service work in support of sales and the development of basically new products are carried on in the same group, there has occasionally been an unwise distribution of laboratory effort between the two functions. Most serious of all, there has often been poor coordination between laboratory and engineering groups on the one hand and sales and manufacturing on the other, so that many promising developments have failed through lack of a complete, well directed and properly timed program of commercial development.

The improvement of these conditions is partly a matter of training and partly a matter of formal control procedures. As to training, the product planner should make sure that all sales and development personnel understand the company's product policy, its profit standards and its strategic aims as a business. Where research scientists and development engineers are encouraged to think of their work in terms of general business requirements and overall company policy, there will often be a surprising increase in enthusiasm and morale and an amazing outpouring of new ideas and new product develop-

FIGURE 1

ANALYSIS OF ORDER SIZE

Products: Industrial Materials Period: One Month



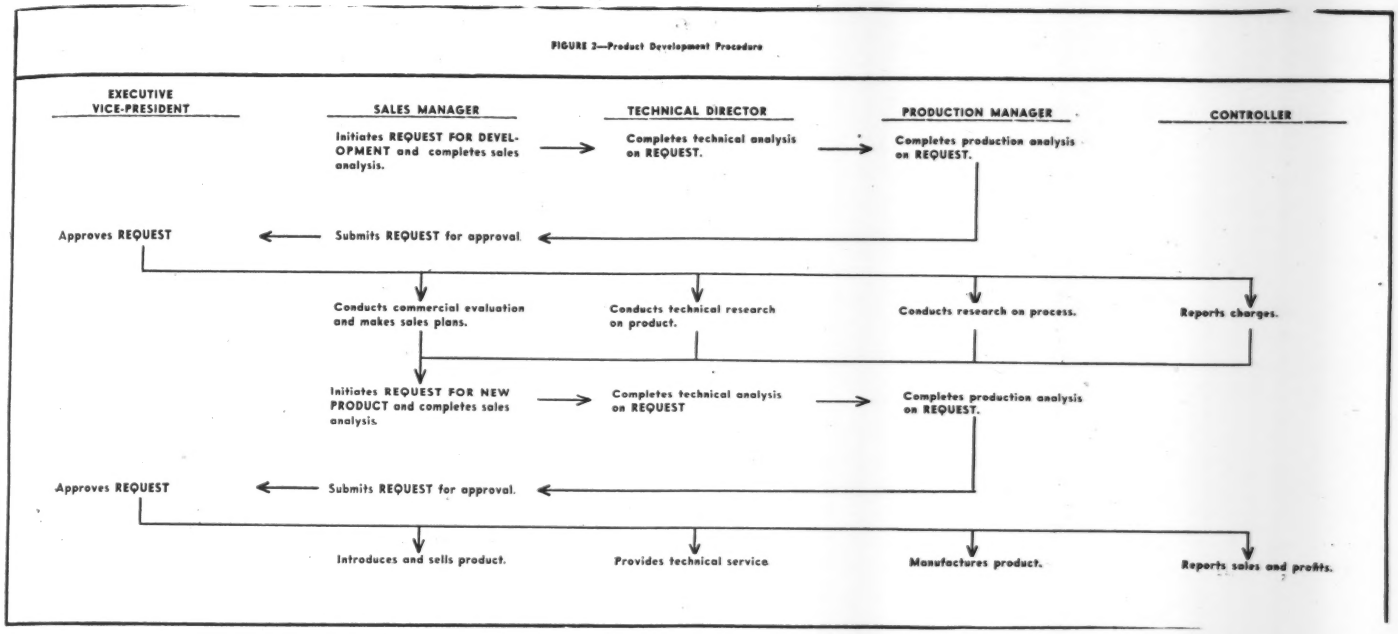


FIGURE 2—Product Development Procedure

ments. Ivory towers are not particularly fertile; the laboratory must be an integral part of the *business* organization it serves.

As to procedure, a product planning program must provide a workable system for the control and coordination of development activity. This requires listing and defining the various phases of a complete development program and assigning specific responsibility for each phase to a particular individual in the company. The scheme employed by one manufacturer of industrial goods is shown in simplified form in Figure 2. Control was achieved through the use of two forms, the first authorizing development work and the second authorizing the introduction of the new product. Each of these control forms provided space for a marketing analysis, a technical analysis and a manufacturing analysis of the proposed product. In this particular business the sales manager had primary responsibility for the overall development program, but the specific approval of the technical director and production manager were also required on both forms. This company had but one laboratory to work both on research and development and on trouble-shooting, product improvement and technical service to sales. Provision was made for proper distribution of effort between long-range development and short-range laboratory services by a system of budgetary control.

At first there was considerable fear in this company that the control procedure would stifle development work. In practice, however, these fears proved unfounded, and it was later generally agreed that the procedure was a real aid to the development program. Differences of opinion were brought out early on any project, and decisions were made more quickly by management. Fewer projects were started, but a higher percentage were carried on to the successful introduction of new products.

In some consumer-goods businesses where new models are regularly introduced, the product planner can often coordinate product development work through a product development calendar. At one appliance company such a calendar is issued monthly. It summarizes all changes in the line, including such items as the development and introduction of new products or models and the modification or elimination of existing ones. For each event the calendar gives the target date, the individual responsible and the specific factory section or sales group involved. In this particular company the product planner himself does not set any of these target dates or assign any functions to operating personnel. He has a staff function only, and his task is to secure agreement from the line managers of development, production and sales.

NEW AREAS FOR DEVELOPMENT

In considering major new development projects it is generally necessary to make not only a technical analysis but also a commercial analysis of the proposed new product as a business in itself. In one large corporation the product planner makes a detailed marketing analysis of each major new development before the project leaves the laboratory. The technique here is similar to the analysis required to determine whether to retain or eliminate an existing product. In considering a proposed new product, market or development, however, there is much less information available and the individual judgment of the analyst is correspondingly more important. In highly technical businesses the analyst must have a very thorough technical knowledge as well as a sound marketing background.

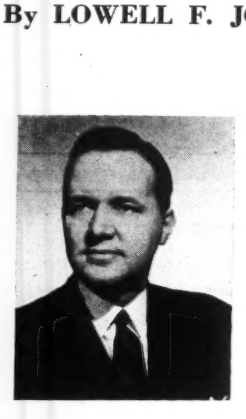
In appraising new development projects and proposed new products, the product planner must, of course, work closely with the market research department, the product development laboratory and the process development group. In one company the heads of these four functions were detached from other work and established temporarily as a full-time committee to draw up a plan of long-range development. The committee examined a large number of opportunities for product development in three areas: first, new needs of the company's markets; second, the utilization of new raw materials; and third, the exploitation of new technical discoveries. Out of several hundred ideas originally proposed, the committee selected 12 for further study by special task groups. Of these, five were eventually recommended for actual development.

CONCLUSION

The overall results of a product planing program are higher profits. Companies with such programs believe that they make an immediate contribution to profits in clearing away marginal products, small orders and excessive product varieties. The major contribution of product planning, however, is the guidance of product development through the establishment of profit standards and product policy and through careful control of the development program. Sound planning over the years results in the more rapid and more successful introduction of new products and builds a more profitable product structure for the future. ★

What's Ahead—In The Labor Force

By LOWELL F. JOHNSON



HIGHLIGHTS ON THE AUTHOR

Lowell F. Johnson is Assistant to the Vice President, Industrial Relations, American Home Products. An authority in labor relations and personnel administration, he is a special lecturer at Rutgers, Columbia and New York University. He is a member of the National Labor Panel, American Arbitration Association and President, New York Industrial Relations Association.

WHILE looking ahead, we might well project our thinking with reference to our national labor force. The Census Bureau has developed some interesting statistical data in this connection. Their figures make it incumbent on those, who are responsible for the labor force, to do some long-range planning.

The figures, which have been developed by the Bureau, are all premised on a prosperous and quasi-peacetime economy. The hopes of American management are certainly in this direction, since we have had to support cold war production falsities too long.

According to estimates, the labor force in the United States will advance steadily during the next quarter century. By 1955, it will be up to 67,950,000; to 72,280,000 by 1960; to 78,142,000 by 1965; to 83,953,000 by 1970; and to 88,593,000 by 1975. If one includes the armed forces at their present levels, this means an increase in excess of 22 million jobs during the 23 years —a rate of almost one million per year. These estimates, of course, would be revised upward in event of another all-out war or downward in event of a serious depression.

If you are still interested in playing with figures, you can take a guess at union membership over the same period. On the basis of present enrollment in affiliated unions of roughly 25% of the work force, this would mean that organized labor might have more than 22 million dues payers by 1975. This would be a potent, if not cohesive, force in any economy. It also brings into focus the necessity for management to do a better job of *merchandising itself* to this group, and to the public.

The Bureau's figures project other matters of interest to those who plan for the labor force. It looks for a continuation of the historic advance in the number of women in the labor market. In 1950, the proportion of women in the labor market was 28%, and it is estimated that by 1975 this will increase to 33%. In 1920, women represented only 21% of all workers. In 1950, there were some 17,924,000 women in the market and using the estimated figure for the labor force in 1975 this would increase to 29,359,000, or an actual increase of 64% over the 25-year period. Conversely, however, it is estimated that the male labor force will increase by only 27% during this period from 46,538,000 in 1950 to 59,234,000 in 1975. Certain conclusions can be drawn from these estimates with reference to their implication on such matters as physical planning, need for careful examination of the retirement problem and executive and supervisory development.

In recent years, more than ever before, much discussion and emphasis have been placed on the maintenance of maximum employment in this country. The above estimates bring the problem into sharp focus and are based on a careful study of employment trends and characteristics during the past several decades. Between 1950 and 1960, the annual increase would be limited to about 800,000 or 1.2%. However, a recent increase in the birth rate would step this up to 1,200,000 or 1.5% during the succeeding decade. The projected expansion in the labor force during this period reflects largely the growth in the population of working age, rather than changes in the rate of labor force participation. It is estimated that this rate will change very little from 57.0 in 1950 to 58.4 in 1975.

Early and prudent use of the above projections during the next 20 years could well prevent the "make-work" which we have seen during, or at least a part of, the past 20 years. ★

EIGHTH ANNUAL TIME STUDY AND METHODS CONFERENCE

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See the back cover for further details.

FOREMAN UNIONS! HOW SOON?

ANONYMOUS

A bottom-up view of the basic top management-supervisor relationship.

EDITOR'S NOTE: This paper is printed without the author's name and references to his company have been deleted. The author is a graduate of a well known engineering college with an excellent record as both a student and an athlete. He has served as a Boy Scout Commissioner and has been active in P.T.A. affairs in his community. Having been with his present company for 15 years, he has served as a foreman for a considerable number of years.

The company is widely recognized for its advanced management philosophy and practices, and this paper was discussed by the author with his superiors. A senior executive from the company wrote ADVANCED MANAGEMENT as follows:

"While we do not agree with all of Mr. .....'s conclusions we believe he is very sincere in his desire to improve management relations in this company and in others, and we believe his paper will stimulate thought and action that will result in improvement. . . . Mr. ..... has been one of our more able supervisors for many years. . . ."

Readers' comments will be welcomed.

As a Blooming Mill Turn Foreman in a modern steel plant I like my work, and I honestly like my company. I own some of its stock, and at present I am saving for more. I am not operating from a swivel chair, far from it. Every working day and all day long I am in close proximity to red hot steel, soaking pits and other components of a rolling mill; I wear a hard hat. I feel that my top management is sincere in trying to make my company *a better place to work.*

I am writing this article with the hope that it will reach the management levels where it will do some good. It might be called *The Trend Towards a Foreman's Union.* I who would reverse this trend am of the belief that *it is not of the foreman's choice.*

What I have to say may not sound plausible to top management levels, but I assure you that my convictions result from the careful, sincere study of the first-line supervisor's views and attitudes towards his company. Every day we foremen are exposed to the company's views, policies, statements, directives, etc. All are designed to make us better members of the management team. That these aims are well worthwhile we readily acknowledge and accept. That they are not accomplishing their purpose and are inadequate are the issues upon which I want to express my views. The entire subject resolves itself into the field of human relations, more pointedly, human emotions.

Since the advent of the Taft Hartley Act in 1947 prohibiting the unionization of foremen, there has been little serious thought and effort given to help the foreman attain his legal status as a member of management. The president is committed to amend the present act, with a possibility that the restrictions on foremen's unions may be removed. Some alert companies are becoming aware of what the future could bring. Other companies are complacent, giving lip service only to their unity-in-management plans. Literally, the entire situation can be compared to the farmer who sits on his front porch and serenely waits for the rain to save his crops. He feels secure in his knowledge that someday it's bound to rain. It may not be long now before the stock phrase of "too little and too late" will be appropriate. The corollary to this trend towards foremen's unions lies in the story of the independent or company unions of the early thirties. Some of these still exist. Most of them fell when the CIO took over the field.

SOME EXAMPLES

First, to better understand why foremen may want to unionize, let us analyze what brought about the tremendous growth in unions as soon as the Wagner Act was passed in 1935. Then, as now, we all were members of a great team in a capitalistic free enterprise. All of our great industrial leaders reminded us of this, time and time again. We are told the same thing today. Then, as now, our "communications" were good (?) from the top down. Then, as now, from *the bottom* up they were very *poor.* The unions did nothing but circumvent this normal line of communications by *communicating* directly from the rank and file to the top. This, in my mind, is the underlying reason for unions. This, I can assure you, is the situation as it exists today regarding the first-line supervisors. Just as the unions gained *recognition* so will foremen; either by being accepted as truly functional members on the management team or by *unionizing* and becoming, in a sense, opponents.

That a foremen's union will benefit us temporarily, at best, is fully appreciated by a great majority of the foremen. There is no doubt that unionism will lead to problem upon problem. We are intelligent enough to see this right in our own employees' union. We accept that a union can perpetuate itself in power only by creating problems, continually and incessantly. However, the average front-line foreman, with his slim chance of promotion as he sees it, will readily accept unionism if he is convinced that it is his only recourse to gain recognition, his only chance to settle his problems, his frustrations, as he alone recognizes them, *on his own thinking level.* Someone might question what I mean by "thinking level." Here is an example, although somewhat extreme. Just the other day when a man asked his boy, who had been working in a steel mill during his school vacation, how he was getting along, the boy answered that last night he again helped his foreman get some of his paperwork straight, and added: "Dad, do you know that he can't divide! He is good on adding

but. . . ." One can readily see that any industrial relations program based on a calculus level will have a hard time penetrating this foreman's grass-roots arithmetic level. Probably his biggest problem is of the nature, "Why is it that Bill Jones from such and such a department can park inside the plant and I can't?"

Here is another example. It concerns an elderly, esteemed foreman whose daily routine includes driving over to his department head's office for a reporting-to, and then checking with the assistant if and when the latter is around. Here is his story. He saw his department head on Monday morning and after they were through asked for the assistant. He was told that the assistant "isn't in the office." This was all right with him since it was nothing unusual. Tuesday morning he received the same answer and he still thought nothing of it. Tuesday afternoon he casually mentioned to one of his crew that tomorrow morning he would see the assistant about the minor thing of the moment and was answered: "No, you won't! The company sent him away for a physical check-up this week." Here are his words. "Why didn't he tell me . . . ?" "Why did he make me look like a . . . ?" "I feel so *ashamed* to tell anyone about this."

Generally, we foremen do not question the sincerity and the wisdom of the companies. We grant that they benefit us greatly. We realize that as long as we work for a company we prosper in direct proportion to its prosperity. What is it then that causes us to question the things we get from the companies; even the free things such as dinners, picnics, insurance, etc.? Why is it that we are always looking for the hidden motive behind the generosity? Possibly this is the answer. As one man said, "When I was a boy and my father gave me candy or took it away, I never asked *why*. Now I am old enough to want to know *why*." Is this paternalism the real stumbling block?

Another man said, "Years ago, the Old Man used to walk through the mill, ask you how you were doing and discuss things. Nowadays, I sometimes don't see my department head for a couple of weeks."

Another man said, "He (the big boss) gives you the impression that he needs just a little more room than you do. Don't crowd me."

Yet another said, "When you go to the Main Office nowadays you get the feeling that everyone is trying to impress you as to how busy he is. You feel like backing out."

In spite of the fact that I speak from the foreman level, I can honestly say that this same feeling of frustration is prevalent at all levels. On the lower levels, I speak from a personal knowledge. Higher up, one can readily sense it. Probably a bit more of the "Hi Joe. Whaddaya know" atmosphere could do a lot in bringing together the different levels of management. How many men can proudly say they work *with* instead of *for* their superior? We played football for our school, but we played *with* our teammates.

At many Foremen Training Conferences, top management talks about the importance of "Human Relations." These discussions could be interpreted in many ways. Does it perhaps point out the foreman's conviction that a real understanding of the term "human relations" is lacking on the upper levels? "Don't do as I do; do as I say."

FOREMEN CLUBS

Many companies are trying to do something about the pro-union sentiments of foremen. One of their methods is fostering management clubs along management training lines, with a generous portion of social activities thrown in. Some clubs have deteriorated into purely social clubs while others are closely following suit. Why? Because the social activities are the only stimuli for the club members to get together. Because these management clubs are not solving the problems and frustrations of the majority of first-line foremen. It is again the failure of our "communications" upward, or to put it more bluntly, the failure of the club leaders, of which I am one. There are two primary reasons for this apparent failure. Some clubs have men in office who do not fully understand the fundamental problems involved because of their locations in the management organization. They are too high up and have lost contact with the lower echelons. "Leadership finds its source in understanding." The club leaders who are aware of the real problems can be divided into two groups. Some easily succumb to the prevalent hush-hush atmosphere. They, as opportunists, readily accept the company-financed favors, such as convention trips, dinners, training sessions, with the commensurate prestige that goes with all this, and which they fear might be jeopardized by an outspoken and aggressive leadership. They studiously avoid stepping on upper managements' toes. They knowingly fail to accept the responsibilities of their leadership.

The remaining few do not side-step their responsibilities. These men earnestly try to promote unity-in-management by conscientiously bringing all issues to light. A few of these have had varying degrees of success. The majority have run into the brick wall of non-co-operation on the part of their co-leaders and upper management. They knowingly risk their chances of promotion, should they provoke their superiors, and in some cases a superior was provoked.

We all accept that aggressiveness in our local clubs is preferable to 'militancy' from "Pittsburgh." We club leaders also know we will be immediately repudiated should a collective bargaining group become organized. What has happened to the Independent Union leaders since 1935?

To illustrate the complacency that club leaders slip into, the following is a quotation from a correspondent who was a fellow student at a national unity-in-management seminar. This man had come up with the novel idea that upon returning to his plant he would contact all of his group who had previously attended these seminars and form a Seminar Committee to effectively promote the principles of unity-in-management throughout the membership. Here are his words less than one month later:

> "How successful the Seminar Committee will be is problematical. Our boys have cooled off so completely in the meantime that I rather wonder if it will be possible to rekindle very much interest. Yet, I believe that we must either get a group going or else stop attending seminars since they result so far in no tangible benefit to the membership as a whole."

What dampened the enthusiasm for unity-in-management principles which these men had so eagerly absorbed at the Seminars as soon as they returned to their own work environment?

INFLUENCES ON THE FOREMAN

If these precepts of unity-in-management are not penetrating to the bottom, just what does the first-line foreman have to influence him? First, he is in close, rugged contact with the employees' union, which he does not admire

but does respect for its power. He sees where militancy and not reason has won out. Education by association!

On the other hand he is directly influenced by his superiors. He knows the union contract is to guide his decisions. He tries to interpret it accurately and frequently does so. It is frustrating in the extreme to find that the right decision today is the wrong decision tomorrow. It is commonly accepted that there are three possible decisions: yours, your superior's, and that of the industrial relations staff. It is a policy of expediency and not of principle, more commonly known as "bending over backwards." While no one yet has suffered a broken back, there are numerous cases of a bad sag in morale and more important, self-respect. Some foremen readily acknowledge that the best way to maintain any semblance of authority is to go just *so* far in maintaining discipline—never so far that it will reach the union grievance man or your superior. The odds are that you will be overruled. The rule to follow is "keep it out of the office." Education by example!

The third area of influence is through educational programs fostered by the company training departments: literature, classes and meetings or gatherings. Education by theory!

Which of these three areas of influence will predominate if and when foremen must make the decision whether or not they will join a collective bargaining union-power, expediency or principle?

SOME STRAWS IN THE WIND

I should point out that foremen *are* a part of management. The companies recognized a foreman's being in the middle status and took steps to counteract this frustration by writing into the union contract that the first step of a grievance procedure must be initiated at the first-line foreman level. *But writing isn't doing.* In how many companies is this first grievance step circumvented by the grievance man going directly to the foreman's superiors? Of course, this can be done only with tacit approval by upper management. The foreman's expression for this is "being out on a limb"—an expression yet to imply security. Why does the grievance man, by circumventing the first-line foreman, ignore the instructions written into his contract? Has he learned that when dealing with the foreman he is dealing with someone who of necessity must "live" with his men and, therefore, must maintain principle? Principle and respect are inseparable in the individual, and the first criterion of leadership is respect.

An impartial opinion on this subject of foreman unionization was given last fall by a university instructor at a foreman's class on Human Relations In Industry. "Apparently the only real solution to the foreman's problems will come through unionization." When pressed for an opinion as to how soon one might expect this event, said, "Within a few years." This observation was later presented at a national seminar on Unity-In-Management sponsored by a prominent foremen association. The seminar leaders were incredulous at first, but after this thesis aroused considerable discussion in the conference group, it was deemed possible but not probable. Yet today, a year later, this association is warning its company members to consider the possibility of a foremen's union should a change in the Taft Hartley Act make it legal.

Yet another straw in the wind may be seen by examining the membership roll of an average supervisor's club, a club not company dominated but subsidized to a limited extent, and whose major program is educational along management training lines. We would see that the new growth came from all levels of management, but most important, we would see that most of the members who dropped out were of the *first-line bracket.* Was it because they couldn't afford their dues? Was it because of this summer's country-shaking steel strike? Or was it because they felt the club was of no apparent use to them? They did *try* the club; maybe next time they'll be willing to try a foremen's union.

Perhaps top management is convinced that foremen will have no part of a union. Perhaps they think that a foreman would not give up his prestige as an individual in order to bargain as a group. If management does believe these things, they are due for a rude awakening if and when this house of cards falls. As a guest recently I attended a meeting of about 40 foremen, composed in large degree from the first-line status. At one point in the discussion—a relatively insignificant misunderstanding in one mill department — I overheard a foreman, sitting two seats away from me, say emphatically, "*Another spot* for a foreman's union!" He meant it and he said it loud enough for all adjacent to hear. Would a man who felt a close affinity to his supervisor or his company, make such a statement? I am in a position to know that this company is proud of its supervisors' club.

It is my opinion that, in general, our unity - in - management program is not unifying the upper and lower levels of management, a complacency exists in top management as it did in the early thirties, which resulted in our present "union" problems, and should nothing be done quickly on this score the only uncertainty that remains concerning foremen's bargaining units is HOW SOON!!!

SUMMARY

I make no pretense that I have a solution. Each situation requires its own. I want no part of a foreman union myself nor do I know of any one foreman who honestly does. However, I do know many foremen who feel that as frustration piles upon frustration without adequate recognition and outlets at their own somewhat remote level, *unionism* does sometimes appear to be the only alternative.

Edward J. Hanley, President of Allegheny-Ludlum Steel Corporation, recently said, "Where management relations are the closest, I think you find the best operated companies." This man knows that close relationships between *all* ranks of management *is* good business; a good place to work for the men and a profitable investment for the stockholders.

For those of you who will say that I see only the trees and not the forest, may I quote from the recent book A CREED FOR FREE ENTERPRISE, by Clarence B. Randall, President of Inland Steel Company. Referring to people who may differ with him, he said,

> ". . . . they themselves will give voice to their dissent, thus widening the area of discussion and stimulating once again the American habit of debate, from whence has come our wisdom in the past." ★

MEETINGS OF SAM NATIONAL OFFICERS
—1953—

April 18 ..... Board of Directors
May 16 ..... Executive Committee
June 27 ..... Board of Directors

SAM Publishes Glossary of Terms

Research Committee reports issuance of four-year nation-wide study.

A GLOSSARY OF TERMS USED IN METHODS, TIME STUDY, AND WAGE INCENTIVES — product of four years of intensive research by The Society for Advancement of Management—has just been published. It may be ordered from the Society's National Office, 411 Fifth Avenue, New York 16, N. Y. The price is one dollar.

This scholarly production does not, of course, herald the ending of all language difficulties in modern business. On the other hand, there have been concrete evidences that the *Glossary* will cut deeply into the mountainous wastes of productive and salaried manhours that pile up annually over grievance wrangling, semantical hair-splitting, protracted contract negotiations and merry-go-round communications. Indeed, the *Glossary* unquestionably will prove to be a landmark contribution to business maturity here and abroad. It is an authoritative frame of reference for simplified, unequivocal communications in the foundational areas of modern business structure. It is oriented to keep those areas in phase with one another and to insure mutually purposeful activity and alertness throughout the business organization.

The *Glossary* will be a very valuable instrument in the hands of all who deal in any way with production management, industrial relations, cost accounting, training and sales engineering. It will be an asset to graduate and undergraduate students in these fields.

NEED INDICATED

The developmental character of our times indicates the need and utility of a glossary of this kind. New words, expanded meanings of old words, are symptoms and tools of our dynamic economy. They are normal appendages of creative thinking. Without them it would be difficult, if not impossible, to clothe insight with action. They help us to capture, nurture and utilize what the poet described as "thoughts that break through language, and escape."

Despite its advantages, changing terminology is not without problems for its users. Problems range from grasping the meaning of a newly-coined word, and remembering it, to fixing the precisely intended shade of meaning for an old term set into a new background. The latter problem is the most frequent in present-day business vocabulary. New conditions, new interrelationships among old conditions, very often defy conventional descriptives, or at best put a strain to the dictionary fabric of language. Yet, language must stay apace with factual phenomena. It must mold itself to changing dynamisms if alert communications are to be kept alive. When new terms cannot be minted to fit new patterns, existing terms must be made to match. It is this admirable versatility of language, however, that all too frequently clouds and disrupts communications. Key words, key expressions denote different things for different people. Fissures develop in the common grounds of understanding. A gap stretches between the thing as *done* by everyone and the thing as *interpreted* by everyone. While these fissures remain unclosed their effects on a business venture can be retarding, costly, even disastrous.

THREE AREAS

The present *Glossary* is offered as a contribution to functional unanimity with respect to the key terminology in three fundamental areas of modern business: Methods, Time Study and Wage Incentives, and the radial implications of each throughout the business organization. The definitions are not proposed as final; indeed, finality is a somewhat tenuous concept in the swiftly moving economy of our day. However, accuracy and unanimity must be accepted as attainable realities within any framework of human striving, if multiple efforts

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are to have significance and the strength of consolidation. The terms listed in this *Glossary* are defined on the basis of their interpretation by the greatest number of experienced people using them professionally and successfully. This procedure was followed because it comes closest to satisfying the twin criteria of accuracy and unanimity, without implying dogmatism. Omitted from the *Glossary* are proprietary terms, such as Bedeaux Plan, Halsey Plan, etc., descriptions of which are available in standard references. Omitted also are terms with local flavor or restricted usage, and terms whose conventional definition has remained unchanged under the impact of business usage. The terms included are those which universally are regarded as vital and sensitive in the areas to which they apply. Altogether, 332 words and expressions are defined.

MANY CONTRIBUTORS

Distilled in this manual are the generous hours, painstaking research and scholarly, professional thinking of numerous SAM members in many geographic areas. Condensed also are the experiences and practices of many types of business and industry, as well as institutions of higher learning. The *Glossary* is indeed a tribute to the unflagging effort and excellent teamwork of the more than 90 SAM members who fashioned it. In final word, too much cannot be said in commendation of *The Glossary Research Committee*, appointed four years ago by Harold F. Smiddy, SAM Vice President, Management Research and Development, to explore, organize, direct, coordinate and complete the research that has culminated in A GLOSSARY OF TERMS USED IN METHODS, TIME STUDY, AND WAGE INCENTIVES. The following constituted the nucleus of this nationwide project:

JAMES H. EDDY, Chairman,
New York Chapter.
PHIL CARROLL, *Northern New Jersey Chapter.*
MERLE D. SCHMID, *Chicago Chapter.*
RALPH PRESGRAVE, *Montreal Chapter.*
ELSON P. DOLLIVER, *New Haven Chapter.*
PAUL GILL, *Northern New Jersey Chapter.*
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San Francisco Chapter.
DONALD P. SWEETSER, *New York Chapter.*
K. O. WILLIAM SANDBERG,
Hudson Valley Chapter.
FRANK FEHLMAN, *New York Chapter.*
ALEX W. RATHE, *New York Chapter.*
VINCENT A. FLYNN, *Research Director, SAM*

WILSON'S '51 SPEECHES SOUGHT FOR VIEWS

EDITOR'S NOTE: The following article appeared in several newspapers recently under the by-line of Peter Edson, NEA Washington Correspondent. It is being reprinted, in part, due to its especial interest to SAM members.

New Defense Secretary Charles E. Wilson says three speeches that he made in the fall of 1951 probably led to his appointment to a cabinet job.

After he had made the first speech, but before delivery of the other two, the General Motors president sent copies of all three speeches to General Eisenhower. Within two weeks the general wrote back to Mr. Wilson, commending him for demonstrating that we can and must produce national security without falling into national bankruptcy. That was the beginning of the contact that led to the President's appointment of Mr. Wilson to the top defense post.

Washington today is studying these three speeches to get a better grasp of the ideas which the new Secretary of Defense may be putting forward as his policy.

Highlights of the three speeches include:

1. A plan for "dual purpose" manufacturing plants, capable of being shifted rapidly from civilian to defense production or used simultaneously for both.

2. An end of direct government controls over prices and wages and the substitution of indirect controls over money and credit supply to end inflation.

3. A justification of the General Motors-United Auto Workers wage formula which includes periodic cost-of-living adjustments and an annual improvement increase of 2½% a year.

Mr. Wilson's first point was covered in a "Preparedness Policy" speech before the American Ordnance Association in Cincinnati. Its main argument can be summarized in oversimplified form like this:

Americans want peace with a stable economy and an ever-improving standard of living. In solving this problem we must preserve American free competitive society. Maximum flexibility must be retained to convert rapidly from pease to war. . . .

Mr. Wilson therefore proposes that defense plants be designed for dual, peace-or-war production on at least 10-year contracts, made renewable for several generations if necessary. . . .

SAW ECONOMY IMPERILED

Mr. Wilson's economic views were outlined in his second speech before the Dallas, Tex. Chapter of the Society for the Advancement of Management, on October 10, 1951*. The U.S. faces two major problems today, he said. The first is possibility of a third world war. The second is the danger of losing out free society in the process of preparing for war. . . .

"The military program must not be expanded beyond the minimum needed to defend the country," he summed up. "We must adopt indirect controls that will avoid inflating the money supply. We must act as quickly as possible to get rid of direct controls which interfere with individual initiative and personal rights."

In justification of the GM-UAW five-year labor contract plan, frequently criticized by other big manufacturers, Mr. Wilson delivered his third address on "Wages and Economic Stability" at Michigan State College. . . .

*Text of this talk appeared in the December, 1951 issue of ADVANCED MANAGEMENT.

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Time Study Rating As Measurement

By E. S. BUFFA

Application of principles of measurement applied to performance rating.

PERFORMANCE rating in time study is well recognized as being a major source of difficulty in establishing production standards in industry. The difficulties are exemplified in the extreme when we find that two time study practitioners from slightly different industrial environments will often rate the same performance with a deviation of as much as 25-40%. The usual industrial engineering conference yields similiarly discouraging results. A budding young industrial engineer comes to the conference to learn the latest in the field. During the conference he may attend a session showing rating films. When he compares notes with the person beside him and the group as a whole, he finds tremendous variations which may cause him to lose confidence in the basis for performance rating. What are the sources of variation in such a situation? What basis does performance rating have as a system of measurement?

FUNDAMENTALS

Stated simply the fundamentals that must be observed in establishing any system of measurement are:

1. establish a standard of measure.
2. develop a scale or a unit of measure so that measurements can be made, compared and used in calculations.

The basis for time study rating is the same as for other systems of measurement. First, it should be recognized that all measurement, regardless of its nature, is arbitrary, and that it is entirely possible that several systems of measurement of the same variable can coexist (although it may not be desirable) and all may conform to the simple fundamentals of measurement. For example, today we recognize and work with two systems of linear measurement, the English system and the metric system.

Linear measurement is an excellent case in point, since it is widely known and understood, and since its historical development parallels performance rating measurements. It is reported that the origin of the inch was the width of King Charles I thumb. Here we see the first fundamental of measurement, the establishment of a standard. We can agree that the original standard of the width of a man's thumb was not a particularly good one, since the standard itself was not fixed, but it was a starting point from which a highly effective system of linear measurement has been built. Today we know that the basic standard for linear measurement is a platinum-iridium bar at the International Bureau of Standards at Sèvres.

In a given industrial plant, we may have linear measurement standards such as gage blocks, but the gage blocks themselves are derived from the basic standard. Today each plant has measurement instruments that are derived from the basic standard of linear measure. This was not always true, consequently there was a time when the lack of uniform standards led to the same kind of confusion that exists in the field of performance measurements today.

The second simple fundamental of measurement calls for the selection of a unit of measure or a scale. Theoretically, this could be done in an infinite number of ways. Fortunately, in linear measurement there are only two which are common today, the inch scale and the centimeter scale. It is important to recognize that this step is separate and distinct from the selection of a basic standard, for we could divide up a basic standard of length in any number of ways and get as many different scales.

The present structure of the system of linear measurement is set up in such a way as to resolve any dispute over measurements quite easily. If two instruments yield conflicting results, it is easy to go to the accepted standard to check the calibration of the instruments. Rarely would it be necessary to carry such a dispute to the court of last resort, the platinum-iridium bar. Usually it can be resolved at the factory level using the gage blocks as the standard. This is true because of the very wide acceptance that our linear standards have achieved.

HIGHLIGHTS ON THE AUTHOR

Elwood S. Buffa received a B.S. degree in Mechanical Engineering in 1946 and later his M.B.A. degree, both from the University of Wisconsin. He was employed at the Eastman Kodak Company as an Industrial Engineer until 1950, when he was appointed Assistant Professor of Industrial Engineering, University of Illinois. In February, 1952, he accepted a Lectureship in Production Management, University of California, Los Angeles. He is a consultant on matters relating to wage incentives.

APPLICATION TO RATING

Performance rating conforms to the principles of measurement, although in point of time the development of performance rating measurements is many years behind the field of linear measurement.

The basic standard in performance rating is a given pace of work or speed of work. In most plants this standard has not even been fixed and recorded, but is carried in the memory of the time study staff of the plant. Unfortunately, the basic standard (normal performance) is not necessarily the same in all plants. Indeed in larger plants the basic standard may vary between departments of the plant. In some instances the basic standard has been recorded as the time required to perform

a given operation under specified conditions of method, materials, work, conditions, etc., the resulting speed of work or performance being the standard. In other instances the basic performance standard has been recorded on motion picture film, using constant speed cameras.

ATTEMPTS MADE

Even if the basic standard is recorded for each plant, that does not help the confusion that results when people from different plants get together. Recent attempts have been made to establish a uniform basic standard, notably the pioneer Work Measurement Project and films of Dr. Ralph M. Barnes and the recent rating films of the Society for the Advancement of Management. These attempts parallel the establishment of a common standard of linear measure.

The performance rating *scale* is, of course, parallel to the inch scale or centimeter scale in linear measure. The rating scale itself allows us to record and compare performances.

Different rating scales merely designate the basic performance level with a different number or index and divide up the space between zero performance and standard in a different way. (See Figure 1). For example if we assume a basic standard of the so-called "minimum acceptable" pace, or walking at three miles per hour, the 100% scale (shown as Column A in Figure 1) designates this point as 100% and the Bedaux scale (shown as Column B in Figure 1) designates it as 60 points. The space between the basic standard and zero performance is then divided quite differently for the two scales.

The 100% scale is also applied to other basic standards, Perhaps the most common would be where the basic standard is at the "average incentive" pace (shown as Column C in Figure 1). This point is designated as 100% and is usually supposed to be about 25-30% above the "minimum acceptable," or three mile per hour pace. It is easy to see of course that a given index on one 100% scale is not equivalent to the same index on the second 100% scale, but much confusion has resulted from this point when the difference in the basic standard has not been clarified.

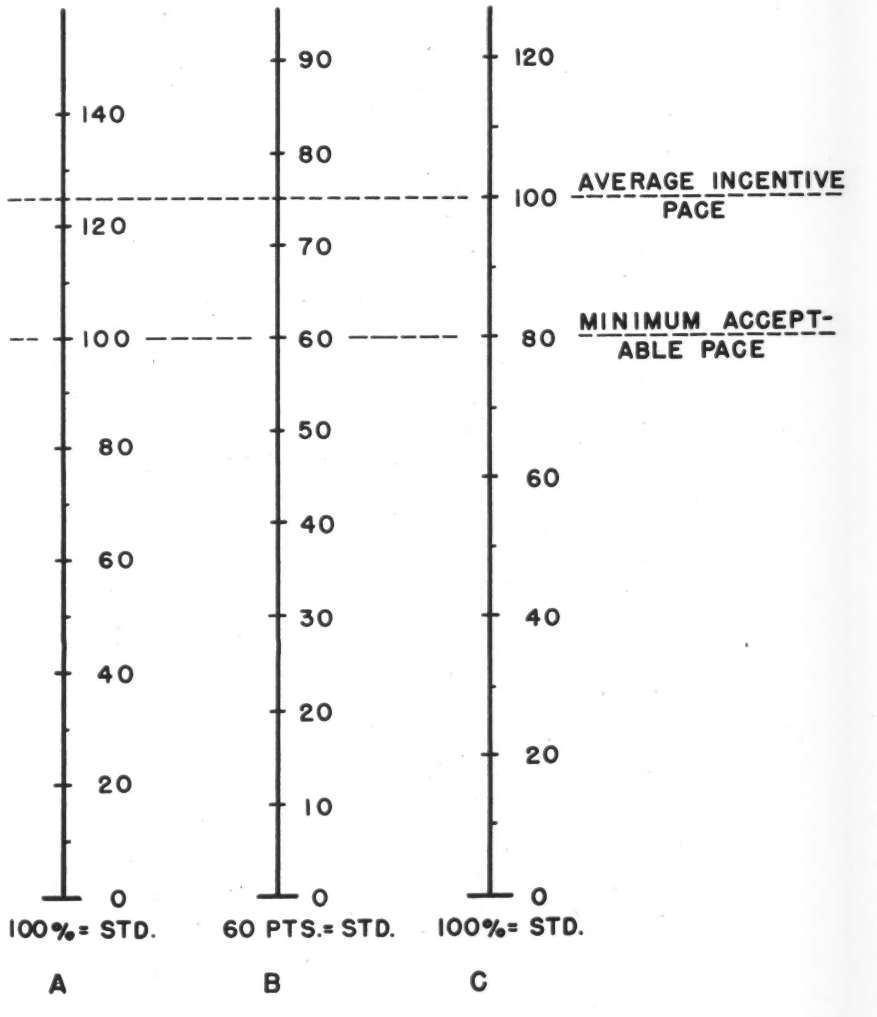

FIGURE I.
THREE COMMON RATING SCALES

GREAT VARIATION

It should be apparent then that performance rating is not in violation of the fundamentals of measurement. The confusion which surrounds performance rating results from the fact that basic standards are not uniform between different plants, the basic standard usually is not recorded and rating scales are used which are different but appear to be the same (the 100% scales). Imagine the difficulty of getting several hundred inspectors together to determine the accuracy of linear measurement and having them measure the same parts, when several different basic standards were being used in combination with different scales. Quite obviously the results would be meaningless.

In rating conferences where men of different industrial environments are asked to rate the same performance, we should expect the same meaningless result. There is great variation in the basic standard and in the scale normally used by the participants. Variations of 50% could be found in the different basic standards and scales to which must be added the error of rating itself. It is obvious that no confidence can be placed in the result as an appraisal of performance rating. At a recent conference which the author attended in which rating films were shown, one participant recognized at least part of the above difficulties. He asked the conference leader before the film showing was to start, "What shall we call normal?" The answer was, "Let's call 100% our normal."

CONCLUSIONS

The field of linear measurement was once in a state of confusion, being plagued by many different standards and scales. The problem was finally solved by developing a uniform linear standard and by reducing the number of scales in prominent use to two.

It seems evident that much could be gained in the field of performance rating by following the same course. What is needed is a national performance standard. Such a standard would do for performance rating exactly what the platinum-iridium bar has done for linear measurement. It would serve as the model for training and retraining personnel (comparable to instrument calibration). If such a standard could gain wide enough recognition, it could serve as a basis for resolving disputes that have their roots in performance measures. Performance data from different organizations would take on new meaning.

It seems that the best means available today of recording and fixing basic standards of performance is the motion picture film. It is not our present objective to discuss whether many different films representing standard performance in different types of work or whether one standard would be sufficient. If such films were available at the plant level they would serve to train and retrain personnel. In the event of disagreement they would serve as a basis for resolving the dispute. If agreement could not be reached at the plant level, performance standards should be available on a national level, in the hands of a recognized group. The National Bureau of Standards has served this purpose in other fields of measurement, why not in performance ratings? ★

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BROAD RANGE FOUND IN FOREMEN'S PAY AND DUTIES

NEW LIGHT is cast on responsibilities and earnings of foremen in both manufacturing and non-manufacturing industries by a pilot study made at National Foreman's Institute, New Haven, Conn. Based on returns from 10,000 questionnaires, the study demonstrates the differences in rank and pay that go with the title—indicating an urgent need for better job evaluation in the middle management area.

SALARY RANGE

Salary data reveals a range from less than $300 a month to over $700 for foremen in the manufacturing field. In the non-manufacturing field, paychecks were lower, ranging from $300 to $475 monthly.

The job descriptions received indicated that the title "foreman" means all things to all people. In one company, the foreman may be a veritable "small businessman" running his department on his own. At the other extreme, a foreman may be little more than a monitor with authority so watered down as to make his managerial status an empty title.

The number of employees supervised by foremen varies with the size of plant, the survey showed. In plants of over 1,000 workers, the average foreman directs 48 workers. In smaller plants of less than 100 workers, the foreman has charge of an average of 20 workers. The national average of workers supervised for all industries is 37 subordinates, ranging from 44 in the northeast t 25 in the south.

CONCLUSIONS

Survey results prove that foremen are obtaining a substantial differential over and above the take-home pay of hourly workers. In most cases, the foreman earns from 10 to 25 per cent more than do the best paid workers supervised.

In summary, the report finds there is still much to be done in defining and standardizing the foreman's job. ★

NMC INTERNATIONAL NEWS

EDITOR'S NOTE: NMC International News, written by the staff of the National Management Council, is a regular feature of ADVANCED MANAGEMENT.

The Society for the Advancement of Management is a charter member of NMC, a non-profit non-political organization, founded in 1933 by the leading societies and associations interested in the promotion of the science and art of management. NMC represents the United States in the International Committee for Scientific Management (CIOS), a coordinating, cooperative society, composed of like associations in 20 other countries.

TRIENNIAL CONGRESS

EVERY THREE years the International Committee for Scientific Management (CIOS) holds a Congress. These triennial management conferences are participated in by the 20 national committees which form CIOS and are held for the purpose of free exchange of the latest developments in management methods and techniques. Through these exchanges management strengthens the free enterprise system by bringing about a greater utilization of natural and human resources, thereby creating a better standard of living.

São Paulo, Brazil, will be the site of of the Xth International Management Congress, beginning February 19th and extending through February 25th, 1954. São Paulo, the fastest growing metropolis in the fourth largest country in the world, where problems of management are vital and the study of the Congress reports will be of a great deal of interest, is a fitting place for this coming Congress.

United States management will have the opportunity to meet and discuss with Brazilian management the problems that are common to both. By this exchange a better understanding will be created between these two friendly republics. The success of management in overcoming the problems inherent to the development of vast new resources that are to be found in Brazil is of paramount interest to management in the United States. In this development will be found new markets in depth for products from our factories, and sources of raw materials for our industrial stability. Attendance by United States management to this Congress will give such persons an opportunity to study at first hand the needs for methods and techniques for the development of Brazil, and also the desirability of expanding their own company facilities to that area.

MERITS ATTENDANCE

The Xth International Management Congress will merit the attendance of every top executive of this country. The junior executive, the administrator of tomorrow, will find his attendance of great benefit. As the formulator of the policies of the future, it will give him an opportunity to establish contacts throughout the free world. Through these contacts he will become aware of management's world responsibilities under free enterprise. Not only can he take part in the Congress itself, but there will be many opportunities for him to meet with smaller discussion groups on specific problems. Attendance at the Congress enhances the value of any young executive to his company in the future.

Present indications are that 700 to 1,000 delegates from the United States will attend this São Paulo Congress in 1954. State and sectional delegations are in the process of being formed. Extreme interest is being shown by management leaders throughout the world. To those American companies with South American branches or affiliates, the Council will welcome these management people to the United States' delegation.

You may depart for São Paulo by air from the West Coast, central United States or from the East Coast. On the trip down, the delegates will converge on San Juan, Puerto Rico, for a two-day pre-Congress meeting at the Caribe Hilton Hotel to discuss the United States' delegation's participation in the Congress.

IDORT, the host organization for the Congress, has made extensive plans for your visit to São Paulo. Included are visits to the industrial plants of the area, coffee plantations, entertainment at tennis and swimming clubs, the races and other activities. You will enjoy the warm hospitality of this modern metropolis which is often referred to as the Chicago of South America.

TOURS AVAILABLE

For those who would like to tour South America after the Congress and before returning home, escorted tours will be available. Perhaps you would like to join in the fun of "Carnival" time in Rio de Janeiro which takes place the following week, or tour the lake region in the Andes of Chile, or see the capital cities of Buenos Aires, Santiago or Lima. The official travel agents in the United States for the Congress are the American Express Company and Thos. Cook & Son.

It is not too early to make plans for your participation in the Xth International Management Congress to be held in São Paulo, Brazil, February 19-25, 1954. Contact the National Management Council, 501 Fifth Avenue, New York 17, N. Y., for additional information. ★

Management Policy

By JOHN G. GLOVER

A thought provoking analysis of the characteristics of business policy and a pattern for policy development.

"PHILOSOPHY is a term whose meaning and scope have varied very considerably according to the use of different authors and different ages; and it would hardly be possible, even having regard to the present time alone, to define and divide the subject in such a way as to command the adhesion of all the philosophic schools."

This above statement of the term philosophy, taken from the ENCYCLOPEDIA BRITANNICA, ninth edition, 1894, could be used today, without a single change in wording, to express the term *policy*.

There is a philosophy of business and there are business policies, but they have been used and abused without too much consideration being given to the true meaning of either word.

The modern dictionaries say "philosophy is the love of wisdom or knowledge, especially that which deals with ultimate reality." One of Mark Baldwin's concepts of philosophy is:

"A theory of truth, reality, or experience, taken as an organized whole, and so giving rise to general principles which unite the various branches or parts of experience into a coherent unity."

According to the ENCYCLOPEDIA BRITANNICA:

"The aim of philosophy (whether attainable or not) is to exhibit the universe as a rational system in the harmony of all its parts."

In an economy of free enterprise, where intelligent competition is a dominant factor, it is essential for each member company to have and abide by a wise philosophy of enterprise recognizing its responsibilities and obligations to its owners, the public and to its employees. The accepted motives of business enterprise are to supply services or commodities to satisfy human wants and needs at a profit to the enterpriser. A philosophy of doing business includes the recognition of human beings as individuals and each employee as an important member of a team working to create the services or commodities required to satisfy human wants. Such a philosophy also includes the concept of their belonging to an organization which is proud of its personnel.

In a free economy, idealistic concepts of *business objectives* require an enterprise philosophy commensurate with current thinking of progressive business leaders.

Unfortunately the term policy is misused and abused horribly, being confused with the terms, objective, plan, rule, law and creed. An objective is purpose, aim or destination; a plan is a specification of performance mentally elaborated in advance of action; a rule is a prescribed guide for conduct; a law is a statement of an order or relation of phenomena invariable under the given conditions; and a creed, a formula of faith or opinions.

By definition a business policy is "an established guiding canon[1] governing the activities of business enterprise and from which the basic precepts[2] of conduct[3] are derived."

The philosophy of an enterprise is communicated through its policies. Sound business policies provide a firm foundation to guide an enterprise and to aid management in keeping it on the planned course toward its ultimate objective. Policies create the means for unification and coordination of business activities, tend to reduce the dependence of an organization on any individual, and are essential to operational planning, managerial control and efficient results at minimum costs.

Business policies, then, are intrinsic control instrumentalities of management, providing criteria for uniformity and continuity of business operations. They are the coordinating media of managerial control but their application becomes impossible, until they are thoroughly understood.

The articles of incorporation express broadly a company's basic policies, i.e. the Revolg Pharmaceutical Company's charter prescribes that high grade pharmaceuticals will be supplied to wholesale druggists.

CHARACTERISTICS

A canon, to be a true business policy, must possess the following characteristics common to all business policies:

(1) It must delineate clearly the objective from which it is derived.

(2) It must be in understandable writing.

(3) It must prescribe criteria for current and future action.

(4) It must be stable but amenable to change, consistent with economic conditions and business requirements.

(5) It must be a canon from which precepts of conduct can be derived.

(6) Its edict must be capable of being accomplished.

(7) It should prescribe method of accomplishment in broad terms, but allow for the discretion of those responsible for preparing the precepts of conduct.

(8) Its derivative rules of conduct must not be subject to the discretion of those who are governed by them.

The *first* characteristic of a business policy, then, is an expression of objective. To sell only a high grade of pharmaceuticals. It is a fair assumption that if the company keeps on selling a high grade of pharmaceuticals at a reasonable price and making a consistent profit, the long-term objective of stability and perpetuity will be accomplished. A policy must be interpreted in terms of precepts, and a policy objective must be expressed in terms of work.

The *second* characteristic of a business policy necessitates a precisely written statement so that there can be no misunderstanding of the concomitant

HIGHLIGHTS ON THE AUTHOR

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precepts, and so that all persons concerned may be thoroughly familiar with its true interpretation in common meaningful terms. Usually it can be said that company policies are contained in the policy manual for use by executives. Each executive responsible for interpreting policies in terms of workable rules and preparing these precepts of conduct for guidance of operations should have a copy of the policy manual or at least that part of the manual which governs the conduct of his particular divisional activity.

The *third* characteristic of policy is *futurity*—a corporation by definition is created to perpetuate itself—immortality being one of its characteristics. Thus the general canons or policies must be formulated on the basis of corporation perpetuity, and the inference of perpetuity is profitable operations—the ultimate objective. It will be recalled that sound business policies provide a firm foundation to guide an enterprise and to aid management in keeping it on the planned course towards its ultimate objective. Thus, a business canon or policy prescribes future guidance of enterprise, and demands the delegation of proper authority to those who develop the precepts of conduct of current and future operations under recurring circumstances. A policy, through this fundamental of futurity alleviates management from the responsibility of requiring specific authority to perform a duty or to take action under known circumstances each time they reoccur, thus, relieving management of the obligation to reach routine decisions. The policy to sell the best grade of drugs only is the authority by which the general manager of the pharmaceutical plant issues the order to his purchasing agent to buy the best grade of raw materials and to his plant laboratories, to examine the raw drugs upon arrival at the receiving division. Plant inspecting laboratories are responsible for examination of products during processing.

A policy is management's authority to take the appropriate action.

The *fourth* characteristic of business policy is stability but so flexible that it can be changed to suit the circumstances without disrupting the company's operation to any great extent. A stable policy creates confidence but a vacillating policy courts disaster.

It is seldom possible to forecast changes with accuracy in economic and social conditions, but when these cyclical changes occur they may or may not warrant a change in policy. By the same law of human nature it is difficult, if impossible, to formulate a policy representing the secular trend of an enterprise with such foresight as is necessary to make the policy applicable over a long period of time without variation. If a policy change is necessary, it should be accomplished as soon as possible and in such a manner so as to prevent shock and permit desirable operating adjustments without decreasing the efficiency and effectiveness of labor relations, productivity and customer relations. Flexibility, then, warrants justifiable exceptions to cope with legitimate economic change.

Because policy formulation is a continuous dynamic process governing collective activity and group operation, there must be awareness of change and appropriate action taken or the process becomes static, and the policy will fail to fulfill its purpose. To be continuous, the process must provide for flexibility of policy consistent with economic circumstance, change in nature of business and change of business objective.

With accomplishment of objective as the premise for policy formulation, a policy must be stable in relationship to growth and continuity of the enterprise; but susceptibility of policy to change is not a preventive of policy stabilization. Needless to state, that policy stabilization is an essential contributing factor to effective futurity planning and by reason of policy being a canon of invariable progressive but never final guidance; a policy must be subject to modification, alteration and melioration when and if better methods, procedures and practices have been developed.

Policies must be put to the test of day-to-day operations, and their soundness must be established before they are finally adopted. Once accepted their precepts must be enforced until cyclical business movements or variations within the enterprise call for change-making adjustment of policies imperative. Constant and consistent review and analysis of all policies are required to insure their current effectiveness and to be assured that all persons within the company abide by the preceptive tenets and understand the rules of conduct.

If policies are to serve their designated purpose, they must be maintained as living and vital canons of managerial guidance, coordination and control. A policy must not be allowed to fade into obscurity through neglect or lack of understanding of its concepts. If a policy has outlived its usefulness it should be abolished and replaced by one which will be fruitful.

The *fifth* characteristic of a policy is that it must be a canon from which precepts of conduct can be derived. A policy must be a principle or foundation upon which to build the edifice of objective accomplishment. L. H. Kurtz of General Motors Corporation ably defines policy as the "conscience" of business enterprise.

The *sixth* characteristic of policy is that the prescription of the policy must be capable of being achieved, accomplished or completed. A policy being a canon and a guiding instrument must be prepared or developed properly and put into practice with care and understanding. Because the charter objective must clearly delineate the purpose for which an enterprise is established, it is the specific duty of the owners or administrative management to create and develop an effective philosophy for policy construction which is capable of being recorded in the policy manual and becomes a guide to those executives for whom it is intended.

The *seventh* characteristic of a policy is its prescription of methodology of accomplishment expressed in broad indicative terms—to manufacture high grade pharmaceuticals. The broad term "to manufacture" clearly indicates research, equipment, plant and personnel. One realizes that policies at this point must yield to the development of concepts, plans and precepts of conduct and

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that wise discretion must be part of executive judgment in preparing operational plans and prescribing rules of conduct. Thus, policies reach to the executive or departmental level in the form of internal operational policies governing the activities of the department as a whole. The implementary mechanics of policy are usually recognizable at the departmental level in the form of precepts of conduct. It is here, where the head of a departmental unit aided by staff management and the executive members of his organization, converts the internal operational policies into precepts of conduct for his supervisory and working force. Broad plans for action originate at the administrative level but find refinement at the executive level aided by staff management.

The *eighth* characteristic of a policy is that its precepts of conduct are absolute and not amenable to discretion. The executive, the supervisor and the worker must abide by and carry out the rules of conduct. "There shall be no smoking in this paint mixing department." Thus, no person, regardless of whom he may be, is permitted to smoke in the paint shop area.

CREATIVE DEVELOPMENT

With the hypothesis that the doctrine of policy must be capable of being accomplished, it is essential that a policy be developed with this paramount concept clearly in mind. Such a policy instills confidence and provides a fundamental for voluntary cooperation, consistent performance and the intellectual use of rational initiative. With an open mind and the intelligent exercise of rational initiative, the members of a committee or person responsible for policy development can discover the dominant controlling elements of enterprise, which are the bases for policy determination. With research conducted on these elements, leavened with experiental knowledge of human behavior, one can create workable policies.

Those assigned the task of creating and writing policies would do well to ponder over the "Kipling" pearl of procedure:

"I keep six honest serving men
They taught me all I know.
Their names are Why, and What, and When,
and Where, and Who and How."

POLICY DEVELOPMENT CYCLE

1. *Policy research:*

Analysis of objectives to discover nature, characteristics and aims of the enterprise, so as to develop wise business policies.

2. *Policy creation:*

Synthesis of results of research to create, develop and establish wise business policies with applicable derivative precepts of conduct.

3. *Policy pilot study:*

Exploratory dispersion of policy purpose or intent to discover attitudes and feelings of those who are required to abide by its rules of conduct, thus the policy is made a reality.

4. *Policy comprehension:*

Proper initiation of executives, supervisors and personnel in the doctrine of the policy and proper interpretation, so that persons within the province of its canons can be adequately trained in the precepts of conduct.

5. *Policy conversion to use:*

Conversion of policy to a useful instrumentality of management guidance and control requires definite supervision and two-way communications to assure its effective application.

6. *Policy control:*

Constant examination and evaluation of results of policy operation make the best criteria for evaluating policy effectiveness.

7. *Policy preservation:*

Current and active policies must be recorded and preserved in a policy manual.

CRITERIA FOR POLICIES

Policies to be wise directives of management, should conform to these criteria:

1. Policies should express the philosophy of the company.

2. Policies should imply a code of ethics expressing trustworthiness and result in cooperation.

3. Policies should supply the bases for planning resulting in coordination.

4. Policies should be the foundation for continuity of performance.

5. Policies should supply the criteria upon which to appraise the wisdom of executive decision.

6. Policies should outline intent, resulting in uniformity of practices.

7. Policies should inspire confidence.

8. Policies should afford bases for economy of action.

9. Policies should provide bases for impartial objective management.

10. Policy derivative precepts of conduct should furnish means of communicating the tenets of policies to company policies.

Policies should be appraised in light of results. Of course, there are other criteria which can be utilized to appraise the wisdom of a policy, but the foregoing will serve to delineate the nature of criteria.

Because policies cover the vast area of company operations, it is conceivable that their development and application can become uncontrollable, causing many difficulties and dissatisfaction among the personnel and executives alike. Those assigned to control policy administration, at any level or in any position, are responsible for proper application, adequate maintenance, assurance of conformity and the determination of their effectiveness. With care and constant examination of the results of policy application, one can establish desirable informative controls and check-systems for appraising extent of compliance with the tenets of policy. Experiential knowledge of policy operation is the best means for devising controls and developing methods for policy revision, modification or revocation.

POLICY ANALYSIS

A complete series of sound policies covering all matters subject to policy determination is one of the essentials for the success of an enterprise. Such a body of canons furnishes a company with a code to facilitate intelligent guidance, definitive planning, determinative action and effective means of control. Policies aim to provide proper cooperation, but this cannot be accomplished without an intelligent understanding of required action and means of control.

The policies must be put to the test of day-to-day operations. Their soundness must be established before they are finally adopted. Once accepted, they must be enforced. The ever-changing economic conditions and variables within a business make constant adjustment of policies necessary; periodic and systematic analyses are required to insure their current effectiveness. If policies are to serve their designated purpose, they must be maintained as living and vital canons and their derivative rules of conduct must be communicated to all concerned. A searching analysis of policy in terms of cost and value should be conducted to find out whether or not a policy is serving its intended purpose. In too many cases policy is dictated by busy executives without thought of implications which may defeat purpose. It has been found desirable to have some form of employee or other participation before policy is approved, particularly those at the departmental level. Policies and their rules of conduct affect group attitude favorably or adversely. Common acceptance of policy is the best assurance of compliance.

Where difficulty is experienced with the results of policy prescription, an analysis should be made in the light of problems involved and alternative methods of solving the difficulties. All policies should be subjected to research so as to keep them in line with strategic economic conditions.

The analyses of policies should include an appraisal of the canons by the use of established criteria to discover the trueness and effectiveness of each policy developed in the light of current business operations and the relationship of a policy to other supplementary and complementary canons.

CONCLUSION

The importance of wise policies in the conduct of business cannot be overstressed. Many millions of dollars are invested yearly by business concerns in policy research and development.

Not only business but government is striving to create wise policies. To quote from the NEW YORK HERALD TRIBUNE, October 15, 1951:

> "Mr. Lovett said that foreign policy like a war plan, could not be stated in a single speech . . . but was planned, continuing flow of actions and statements directed toward a central objective." ★

FOOTNOTES

1 The word *canon* means:—a principle accepted as true, fundamental, in conformity with good usage, or the like. Webster's New Collegiate, 1951.

2 The word *precept* means:—any commandment, instruction or order intended as a rule of action or conduct. Webster's New Collegiate, 1951.

3 The word *conduct* means:—the act or manner of carrying on a business. Webster's New Collegiate, 1951.

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Allentown	How to Create Operator Interest in Better Quality	J. F. Verigan	Supervisor of Quality Control, Atlas Powder Co.	White Farm Inn	14
	Executive Training	G. L. Smrz		Rm. 262, Packard Lab., Lehigh University	27
Asheville	Multiple Management	Admiral Fred J. Bell	McCormick & Co.	George Vanderbilt Hotel	16
	Plant Visitation			Oerlikon Tool & Arms Corp.	19
	Panel Discussion	L. B. Sutton	Director of Industrial Rel., Oerlikon Tool & Arms Corp.	Battery Park Hotel	28
Atlanta	Business Women's Problems at Top Management Level	Jacqueline Cochran	President, Cochran Cosmetics	Atlanta Athletic Club	9
Baltimore	Statistical Quality Control	Dr. Acheson J. Duncan	Assoc. Prof. of Ind. Engr., Johns Hopkins U.	Johns Hopkins U.	—
Birmingham	Student Chapter Meeting			Moulton Hotel	3
	Joint Meeting With Associated Harvard Clubs	Dean Donald K. David	Dean, Harvard Business School	Moulton Hotel	24
Boston	A Management Attitude for Business Responsibility	Dean Donald K. David	Dean, Harvard Business School	University Club	9
Bridgeport	Controlling the Industrial Dollar	William R. Brietz	V.P. & Treasurer, Bridgeport Brass Co.	Hotel Barnum	14
Central Pa.	Industry and the Community	Willard F. Rockwell	Chairman of the Board, Rockwell Manuf. Co.	DuBois, Pa.	16
Charlotte	Multiple Management	Admiral Fred J. Bell	McCormick & Co.	The Barringer Hotel	15
Chicago	What Are the Techniques Used to Determine Proper Learning Periods on Machine Operations	F. C. Schafer	Ind. Engr., Magnaflux Corp.		14
Cincinnati	Community Relations—Management's Responsibility to the Community	Leland P. Bradford	Director, National Training Laboratory in Group Development	Hotel Alms	2
Cleveland	Industrial Engineering Round Table	W. A. Giffhorn, Jr.	Albert Ramond & Assoc.	Tomlinson Hall, Case Institute of Technology	15
	Top Management Round Table	Lewis D. Fykse	V.P. in charge of Engr., The Standard Tool Co.	Tomlinson Hall, Case Institute of Technology	20
	Financial Management Round Table	Paul Gill	Manager, Booz, Allen & Hamilton	Tomlinson Hall, Case Institute of Technology	22
	Human Relations Round Table	Wade White	Training Director, Euclid Road Machinery Co.	Tomlinson Hall, Case Institute of Technology	27
Detroit	Further Findings from the Rating of Time Study Survey	Prof. David B. Porter	New York University		7
Greensboro				Starmount Country Club	14
Greenville	Techniques of Multiple Management	Admiral Fred J. Bell	McCormick & Co.	Hotel Greenville	15
Hartford	Guests of U. of Conn. Student Chapter			U. of Connecticut, Storrs, Conn.	16
Hudson Valley	Use of Techniques of Operations Research in Industry	John D. Lathrop	Arthur D. Little Co.	Hendrick Hudson Hotel, Troy, N. Y.	7
Lancaster	Institute of Management				9
	Organization Planning	Claude V. Swank	V.P., Manufacturing, Johnson & Johnson	Hotel Brunswick	28
Manchester	The Fundamentals of Industrial Accident Prevention	John A. Geary	Supervisor of Training, Employers' Liability Insurance Corp., Ltd.	Carpenter Hotel	1
Milwaukee	Annual Conference				9 and 10
Montreal	Ratio Delay Studies and Their Application	J. P. Davies	Leetham, Simpson, Ltd.	Blue Room, Ritz Carlton Hotel	8
New Brunswick	Managerial Planning	Dr. Alex Rathe	Prof. of Admin. Mgt. Engr., New York University	Roger Smith Hotel	16
New Haven	Getting Employee Participation in Industry	Prof. Alex Bavelas	Mass. Inst. of Technology	South Meriden House, South Meriden, Conn.	16
New York	Wage and Salary Administration			Hotel Statler	23
N. New Jersey	Incentives for Indirect Labor			Hotel Essex	23
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N. New Jersey	Incentives for Indirect Labor			Hotel Essex	23
Philadelphia	Plant Tour				2
	Education to Business	Clarence T. Wasmer	President, Rex Engineering Co.	Poor Richard Club	7
Pittsburgh	Public Transportation—A Case Study in Scientific Management	Michael J. Gittens	Traffic Engineer, City of Pittsburgh	Hotel Webster Hall	23
Richmond	Cost Reduction Through Work Simplification	Ben S. Graham	Chairman of Future Demands, Standard Register Co.	Hotel William Byrd	28
Trenton	Practical Applications to Industrial Relations Round Table			Rutgers University	7
	How Esso Management Uses Forced Choice Performance Reports	Dr. MacEldin Trawick	Industrial Psychologist, Esso Standard Oil Co. of New Jersey	Hotel Hildebrecht	21
	Human Relations Promoted by Physical Plant and Layout			Rutgers University	23
Washington	Employee Contributions to Management Improvement Round Table	John E. Moore	Director of Personnel, Dept. of Defense, (Office of Secretary of Defense)	Federal Personnel Council, 1626 K St., NW	2
		Harry Schwartz	Personal Director, The Hecht Co.		
	Government & Business Relations in International Trade Round Table	Alden W. Boyd	Dep. Dir. of Admin., Mutual Security Agency	Federal Personnel Council, 1626 K St., NW	6
		Karl Anderson	Dep. Dir., Office of International Trade, Dept. of Commerce		
	Property Management Activities Round Table	Gustave A. Moe	Director, Supply Management Div., FSS	National Archives, Bet. 7th & 9th Sts., NW, on Constitution Ave.	7
		D. C. Downs	Mgr., Gov. Div., Stern Office Furniture Co.		
	Scientific Management in the Home Round Table	R. K. Friedman	Head, Admin., Methods Branch, Dept. of Defense (Navy)	Dept'l Aud., Conf. Rm. A, Bet. 12th & 14th Sts., NW, on Constitution Ave.	9
		Catherine Morhard			
	Dinner Meeting			Barker Hall, YWCA, 1649 K St., NW	16
	Financial Management Round Table	Karney A. Brasfield	Asst. Chief, Accounting Systems Div., General Accounting Office	Dept'l Aud., Conf. Rm. B, Bet. 12th & 14th Sts., NW, on Constitution Ave.	21
		Robert E. Harvey	V.P. and Comptroller, Capital Transit Co.		
	Organization & Management Methods in Government and Business Round Table	John J. Corson	Manager, Washington Office, McKinsey & Co.	Federal Personnel Council, 1626 K St., NW	21
		Ross S. Shearer	Asst. Administrator (Operations), Economic Stabilization Agency		
	Management of Scientific Research Round Table	Ivan Asay	Chief, Planning Staff, National Bureau of Standards	Federal Personnel Council, 1626 K St., NW	23
		Allen H. Schooley	Assoc. Supt., Radio Div. III, Dept. of Defense (Navy)		
	Legal Aspects of Management Round Table	John Alexander	General Counsel, National Production Authority	Dept'l Aud., Conf. Rm. B, Bet. 12th & 14th Sts., NW, on Constitution Ave.	28
		Peter Nehemkis	Attorney		
	Government-Business Relations Round Table	G. Lyle Belsley	Asst. Adm. for Industry, Adv. Com., National Production Authority	Federal Personnel Council, 1626 K St., NW	28
		Donald G. Shook	Rep. Dir., Printing and Publishing Div., National Production Authority		
Wilkes-Barre	Production Planning and Control	G. G. Lohmiller	Production Control Manager, SKF Industries	Hotel Sterling, Wilkes-Barre, Pa.	6
Wilmington	Maintenance Control of Cost Reduction	L. C. Morrow	Consulting Editor, Factory Management and Maintenance	Hob Tea Room, Delaware Trust Building	7
Worcester		Alfred C. Neal	First V. P., Federal Bank of Boston	Hickory House	20

*This is a summary of the Chapter activities reported. Programs of the other 25 will be listed upon receipt.

(*Continued from page 9*)

step toward performance budgeting is the improving and extending of activity schedules. In expressing activity schedules these steps are minimal:

a. Consideration of the major purposes to be served.

b. Specification of the programs to carry out the purposes.

c. Indication of the program activities under each appropriation or fund.

d. Volume of work, with data on past, current and anticipated work load.

These matters should be set forth in terms of objectives or functions rather than in terms of organizational structures, unless the organizational structure is a functional one. Obviously, if the organizational structure corresponds to the functional framework of an agency or department, it will facilitate the decentralization of budgeting, program, and financial responsibility at every level within the organization. The basic data underlying these points will be, or should be, needed at every level of budget review if intelligent consideration is given to budget requests. Interim and final decisions on program requests can be no better than the information on which these decisions are made.

2. The Installation of Work Measurement and the Application of Performance Standards. After the agency programs are budgeted their execution is largely in the hands of the administrator. Operations should have been planned in advance according to established performance standards including both the quantity and quality of work expected. This is the basis for later performance estimates and a basis for supervision of and accounting for program achievement. The quantitative plans provide a yardstick of administrative intentions against which actual progress can be measured, and subsequent budgetary requests determined. Without a reliable system of work measurement and performance standards, program budgeting could be defeated within the administrative agency.

The installation of work measurement and performance standards will vary in nature from agency to agency. There is no one correct pattern for measuring of activity or for determining performance standards. In general it is preferable to decentralize the responsibility for discovering and using the method most suitable for a given program. The variety of government programs, both in nature and volume is so great that to insist on a particular method of measuring performance is naivé. The principle is that there be *a* method of measuring performance rather than that there be a general prescription. Some agencies can use workload and unit cost data; others can use workload data but not unit cost data; still others can use only explanatory or descriptive material. Furthermore, in the improvement of performance measurement, it should be kept in mind that different agencies are in different stages of development, and may move progressively from one stage to another over a period of time. Also, it should be kept in mind that in Federal budgeting Congressional attitude toward program budgeting is sharply conditioned by the evidence which is presented concerning the quantity and quality of work in a given program which has been accomplished with the funds appropriated. In establishing suitable performance standards for a given agency these guides seem minimal:

a. Those who decide upon the standards must have a complete understanding of the nature of the work.

b. The standards should be arrived at only after an examination of past records and of similar work done by other organizations.

c. Standards should be considered tentative until tested by experience and application.

d. Deviations from the established standards should be allowed, but only when warranted.

3. The Improvement of Administrative Reporting and the Establishment of Record Keeping Along Functional Lines. The success of performance or program budgeting will rest in no small measure on the improvement of administrative reporting with special reference to reporting on a functional or performance basis. Frequent and regular reports are necessary if management is to check on work done, objectives achieved or not achieved, and utilization of funds and personnel in terms of programs. Such reports become essential as a part of an agency's justification to the legislature both with respect to past performance and future budgetary requests. Harold D. Smith maintained that budgetary administration without full financial and operating reports flowing periodically from the administrative units of the government was blind and arbitrary. Indeed, he elevated this concept to the level of "the principle of budget reporting."[13]

The performance reporting systems currently in use in the several Federal agencies fall into these major categories:

a. Those reporting only volume of workload for each activity.

b. Those reporting both volume and quality of workload.

c. Those reporting volume and quality of workload and time expended.

d. Those reporting volume, quality, time expended and costs of each program or activity.

Within these performance reports the content may be as simple or detailed as appropriate. As a minimum the performance budget must be supported by reports on the total costs of each activity which in turn can be summarized by object of expenditure and by organizational unit.[14]

Closely related to both proper accounting and adequate reporting is the necessity for a progressive system of record keeping along functional lines. Reports are for the purpose of providing information needed in order to make proper decisions and to take appropriate action. These reports must receive prompt attention if they are to serve their purposes. Careful supervision and direction calls for continuous analysis of the reports, appropriate follow-up and regular inspection to ascertain results. In fact, record keeping along functional lines must become the basis for any enduring system of program budgeting.

4. The Installation and Maintenance of an Accrual Basis of Accounting and Improved Cost Accounting Methods. The purpose of this element is to provide financial information and financial controls needed in the formulation, presentation, and execution of a budget on a cost of performance basis. If performance budgeting is to be considered the end product of financial planning, then

financial planning, as expressed in the budgets of the public agencies, requires adequate and proper accounting support. Indeed, performance budgeting cannot become a reality without such accounting support.

Basically there must be an integration of budgeting and accounting classification in order to provide adequate and reliable accounting support for budgets. Where appropriate, accrual accounting (e.g. that which involves determining costs and expenses in relation to changes in assets and liabilities) should be utilized and integrated with appropriation accounting. Further developments must be made in the field of cost accounting, where appropriate, and its integration with appropriation accounting. In turn these developments should lead to the establishment of quantitative and financial control of inventories and other property. Accounting should be decentralized within the agencies to the degree practicable in terms of delegated operating responsibilities and central controls required.

In short, performance budgeting calls for a vastly improved public accounting system which will enable all responsible persons to appraise the value of programmed activities in the light of program costs and accomplishments. These accounts must present full, accurate and timely facts concerning financial results of operations. They must provide for control, not only of funds, but of property and other assets for which any given agency might be responsible.[15]

5. The Provision for a Comprehensive and Continuous System of Management Analysis, Evaluation and Improvement. It is generally agreed that performance budgeting along functional lines, calling in turn for improved methods of accounting, reporting, record keeping, etc., must necessarily be implemented by a program to improve the organization and management of each agency concerned. Such a program should provide an organized and systematic attempt to find more effective ways of organizing in terms of ends to be served; more efficient procedures to be used in the achievement of the ends; for economical methods and techniques of operation; and for a reliable system of internal auditing.

Concrete recognition of this need was evidenced by the establishment of the President's government-wide management program aimed at improving operations within the individual Federal agencies. This program was authorized by Executive Order 10072, dated July 29, 1949.[16] The Congress of the United States supported this program by the enactment of Title X of the Classification Act of 1949.[17]

Both the executive order and the public law direct the heads of Federal agencies to make systematic reviews of their activities and to increase effectiveness and economy in operations. Responsibility for leadership of the government-wide program is placed on the Bureau of the Budget. Significant progress has been made in improved management within government agencies although the program has been in operation less than four years.[18]

6. The Division of Budget Estimates and Appropriations into Two Categories —Current Operating Expenditures and Capital Expenditures. An important element in performance budgeting is that types of expenditures, essentially different in character should be presented, justified, and authorized separately under each major program in the budget. Two primary categories are capital outlays and current operating costs. A *capital cost* is an expenditure for the acquisition, construction, or improvement of property or equipment (fixed assets) such as land, buildings, plant, or machinery. An *operating cost* is an expenditure other than a capital cost incurred in carrying out a specific program or activity. These two types of costs are different in character and in a program budget should appear separately under each major activity.

Too often one finds these two classifications intermingled in the Federal budget. Other fixed charges, such as grants-in-aid, often appear as though they were operating costs. This makes it practically impossible to find the ultimate costs of either a given program or a large capital project. Furthermore, many of the annual appropriations on given capital projects are made without an understanding of total previous appropriations or of what may be requested in the future. It would seem therefore, that costs of capital projects should be set forth in the budget in terms of programs to which they relate and that current operating expenditures for these programs be grouped separately. The Hoover Commission noted that:

> "While capital projects may be carefully analyzed for usefulness, timeliness, and total probable costs at the time of original authorization, the total remaining costs of all capital projects should be set forth in the budget each year, together with costs incurred to date. These costs should be revised in succeeding years to keep them current with later developments." [19]

7. The Revision of the Appropriation Structure Along Functional Lines. Performance budgeting, if it is to be fully effective and carried to its logical conclusion, must extend into the appropriation structure. The final responsibility for authorizing the work programs of the Federal Government rests with the Legislative Branch of that Government. The structure of the appropriations which provide the life blood for these activities should be in accordance with the underlying purposes of program budgeting.

If the separate departments and agencies are expected to present program budgets to the President with expenditure estimates related to program costs; and if the President is expected to propose to the legislative body a comprehensive work plan for the Government in terms of programs and their measured costs; it follows that the legislative body should enact appropriate legislation on a functional basis—that is, *grouping together all appropriations relating to a single program or project.* If this were done the President would be strengthened by having his proposed work plan returned to him, meaningfully intact, except for such modifications as the Congress had seen fit to make. In turn, the President could return the individually authorized programs to the appropriate and responsible department heads for execution. This would not only help clarify the location of responsibility by *purpose* but sharpen accountability as measured by *achievement* of that purpose. Furthermore, there would then have been established not only an executive performance budget, but a *legislative performance budget* which is the only official budget of the United States Government.

In the Federal Government, the long, tedious process of agency preparation of budgetary estimates for program needs, followed by the numerous levels of critical review within the agency, at the Bureau of the Budget, and by the President, reaches its climax when the

budget document reaches the Congress for final legislative action. It is in the Congress, and more particularly in the spotlight of Congressional committee hearings, that the agency renders an acceptable or unacceptable account of performance. It is here that the agency presents its justification of each of its major programs by content, by cost, by necessary or contemplated changes, and by rate of progress achieved. And finally, it is according to the judgment of the Congress, formalized in the appropriation Acts, that the agency programs continue to exist or not.

Congressional appropriation Acts should in form and structure indicate that the Congress concentrated its attention on spending public funds according to some general policy and plan, which provided for the most equitable allocation of resources among alternative programs, and the determination of policies and priorities according to the most pressing social needs. If the appropriation Acts were enacted on a program basis, they would no longer emphasize organizational rigidities which do not necessarily reflect program operations. Instead, appropriation legislation would tend to encourage the responsible administrators to arrange their operating organizations in such a way as to most effectively achieve the program ends for which they are responsible.

In working toward a fully developed performance budget system for the Federal Government for what goals should the Congress strive? If the legislature wishes to continue to carry its full share of responsibility and high accountability in determining national public policy it seems essential that the following improvements be made:

a. The appropriation structure should be revised to correspond to the functional lines of the performance budget.

b. The *number* of "separate" appropriation bills should be sharply reduced.

c. The *variety* of appropriations should be reduced to the lowest number of kinds necessary for long-range planning and program control.

d. The budget calendar should be modified, both in terms of the most acceptable length of the regular fiscal period and a possible longer period for capital budget items and long-range programs.

e. Such accounting records and financial reports as are necessary for intelligent Congressional action should be made mandatory.

CONCLUSION

Performance budgeting in the Government of the United States is well under way. Significant improvements have been made within many of the agencies and departments as well as on a government-wide basis. States and cities have added substantially to the progress made to date. The major elements of performance budgeting have been generally agreed upon. However, these elements have not been fully implemented.

Ideally, in the establishment of a performance budget system *all* elements of improvement or change should move forward simultaneously. This is especially desirable since no one of these elements stands alone. However, no one aspect of performance budgeting should remain static merely because some other part is imperfect. For improvement in one area stimulates and encourages other improvements and the interactions of all will finally determine the level of accomplishment.

While performance budgeting should never be regarded as a magic formula for the cure of all governmental weaknesses, it can provide a meaningful basis for administrative planning, executive coordination, legislative decisions and administrative accountability at all levels of government. It could, if properly implemented, go a long way toward achieving program coordination within the far-flung Executive Branch of the Federal Government, and vastly improve the relationships between the Legislative and Executive Branches, and between the legislature and the agencies and departments. More important, it could provide a basis for rational public appraisal of responsible government. In conclusion:

The performance budget process in government is a continuous, on-going activity on the part of all who participate in it. It is not a destination but a pilgrimage—never perfect, but being perfected—as the light of experience and careful research point the way to greater improvement in the management of public affairs.

FOOTNOTES

1. U.S. Commission on Organization of the Executive Branch of the Government, *Budgeting and Accounting*, Report to the Congress, (Washington: Government Printing Office, 1949), pp. 8-9.
2. For the development of city budgets much credit is due the outstanding efforts of professional organizations such as the Municipal Finance Officers' Association and the International City Managers' Association in the establishment of departmental work programs, and in the development of helpful documents and manuals.
3. 59 Stat. 597.
4. 63 Stat. 578.
5. See especially *Comptrollers in the Navy*, Office of the Comptroller of the Navy, Department of the Navy, June 1951.
6. 64 Stat. 832.
7. Title I, Section 102, amending Section 201 of the Budget and Accounting Act of 1921.
8. See U.S. Congress. House. Committee on Conference. Budget and Accounting Procedures Act of 1950, Conference Report No. 3030 to accompany H.R. 9038, 81st Congress, 2d Session, (Washington: Government Printing Office, 1950), pp. 16-17.
9. U.S. Bureau of the Budget Release, August 4, 1949. See also "Federal Budget on Performance Basis," *National Tax Journal*, Vol. II, No. 3 (September 1949).
10. U.S. Bureau of the Budget, *The Budget of the United States Government for the Fiscal Year Ending June 30, 1948*, (Washington: Government Printing Office, 1947), p. 1353.
11. See entire booklets *The Federal Budget in Brief*, Fiscal Year 1953 and Fiscal Year 1954, Executive Office of the President, Bureau of the Budget, Washington, D. C., for an excellent summary of the national program budget for the current and next fiscal years.
12. See Harold D. Smith, *The Management of Your Government*, McGraw-Hill, New York, 1945, p. 90.
13. *Ibid.*, p. 91.
14. See the graphic booklet on *Performance Reporting* issued by the United States Treasury Department, May, 1950.
15. See the First, Second, Third, and Fourth Annual Joint Reports by the Comptroller General of the U.S., the Secretary of the Treasury, and the Director, U.S. Bureau of the Budget, *Progress Under the Joint Program to Improve Accounting in the Federal Government*, Processed. Dated respectively January 12, 1950; January 12, 1951; January 25, 1952; and December 4, 1952. The Third and Fourth Joint Reports give an excellent account of progress made in the several agencies of the Federal Government.
16. 14 Fed. Reg. 4797.
17. 63 Stat. 954.
18. The nature and coverage of the program is described in detail in a document issued by the Bureau of the Budget, Executive Office of the President, December 1, 1950, titled *Progress in Improving Federal Administration*.
19. Report on *Budgeting and Accounting, supra*, pp. 15-16. There is some disagreement as to the relationship of capital budgeting and performance budgeting. See especially "Symposium on Budget Theory," *Public Administration Review*, Vol. X, No. 1, Winter 1950, pp. 26-27.

The Management Bookshelf

Personality Fundamentals for Administrators, by CHRIS ARGYRIS, published by Yale University Labor and Management Center, New Haven, Conn., 1952.

Mr. Argyris, a member of the faculty at the Yale University Labor and Management Center and a lecturer in management at the Graduate School of Business at Columbia University, expressly states his work is a "primer," an "introduction" written in non-technical terms for the lay reader. The monograph is a brief survey of the principal past and present theories on the nature of personality and is based on a study of the literature dealing with that subject.

The survey was instituted for internal training use by the Center; probably the work's greatest usefulness will be to this organization. Along with the internal purpose was the intention that the document should be of value also to administrators, to persons involved generally in training others and to students in colleges and advanced technical schools. Administrators ignorant of personality theory are most likely to find some ideas useful to them in Chapter III, "The Parts of the Personality and the Environment," and Chapter VI, "Adjusting to Conflict and Frustration." Teachers and students would probably prefer more detailed material than is available in this booklet, although it would have some use for a quick review of the field or for rapid rote memorization of lists included.

After a number of pages of introductory material, the survey really begins with the presentation of a number of hypotheses on which there is said to be general agreement among personality theorists, a very sketchy history of the development of the major schools of thought, and a short description of the chief types of approach taken in studying personality today.

The author then reaches what appears to be his principal interest in this survey: the theories on the development of the personality. "Personality," he writes, "is said to be characterized by (1) *internal*, (2) *external integrated*, (3) *need fulfilling and goal directed*, (4) *activity*." He summarizes his brief explanation of this characterization:

> "Personality, in short, is an ever moving, ever active process. The parts are continually acting upon each other, reacting to these actions and then back again. The personality as a whole, on the other hand, keeps an eye out on the parts and helps to keep their movement organized. This circular process of the parts acting to make a whole and the whole, in turn, acting to maintain the parts is the very essence of the personality process."

The personality is discussed first in terms of its parts ("Needs," "Abilities," "The Self," "Roles" and the "Environment,"), then in a chronological classification by stages of childhood through adolescence, and finally in the light of the Freudian point of view.

In form the paper-bound booklet is offset-printed from typed copy. There is no index, but a detailed table of contents will serve most reference needs; an annotated bibliography of 17 current works in the field is included.

The task of writing briefly on an extremely complex subject is tremendously difficult. To convey understanding of the extensive thinking of many scholars and practitioners working in the field of human personality in a mere 89 pages would be a most extraordinary achievement indeed. The troublesome problem of trying to work from technical to lay language is not to be minimized; that the author has not been wholly successful, is of small wonder. The principal cause of the lay reader's failure to comprehend will be neither with the technical language that has been retained nor with the lack of adequate precision or connotation in the non-technical language; the principal cause will be in the brevity of the descriptions. Substantial rather than sparing use of specific, concrete examples would have been most helpful. Perhaps such an extension of the length of the document was not in accord with its basic purpose for internal use, in which readers would probably be in constant contact with people and material concerned with the subject. For outside lay readers, something more seems necessary if they are to be stimulated toward rather than deterred from further study of the subject.

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Personnel Administration, by WILLIAM W. WAITE, published by Ronald Press Company, New York, N. Y., 1952.

Professor Waite, of Columbia University in his book, PERSONNEL ADMINISTRATION, sets as his objective the restating of the fundamental philosophies of personnel administration as they have evolved during the past half century. The theme of the book, according to the author, is America's demonstrated ability to solve complex problems of employing, training and administering work forces by a combination of adaptability, common sense and a growing understanding of human relations. The outline around which the author restates his fundamental philosophies is indicated by the four major divisions into which he divides his book:

Part I. Starting a Personnel Administration Program

Part II. Assembling the Force

Part III. Keeping the Force Going

Part IV. Dealing with the Force

Part I includes such subject areas as background of personnel, the individual in a work situation, policies, organization, functions of personnel administration, job analysis and specification. Part II of the presentation is built around such subjects as sources, recruitment and selection, induction and follow-up, training and supervision. Part III deals with job evaluation, wage and